

JPRS-CAR-89-020  
8 MARCH 1989



# ***JPRS Report***

# **China**

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# China

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## GENERAL

### **Soviet Human Rights Policy Discussed** *40050249 Shanghai SHIJIE JINGJI DAOBAO* *in Chinese 23 Jan 89 p 5*

[Article by Hu Houfu 5170 0683 3127 in Vienna:  
"Fading of East-West Polarization Seen in Vienna Security Conference"]

**[Text] It seems that Gorbachev is aware that it will be difficult to make the West really believe in his reform policy or make the USSR truly become a recognized world partner if he firmly persists in denying beneficial and valuable Western concepts and political behavioral norms.**

Winter in Vienna is generally cold and freezing, with frost in the air and snow on the ground. Although the beginning of the year was normal, for days on end there has been a clear and boundless sky, and a warm current keeps blowing. Apparently the heavens seem to understand the value of peace and freedom, for they welcomed 35 members and foreign ministers of participating countries to the European Security and Cooperation Conference with a spring-like climate. The final document of the conference that they sign will bring greater guarantees of security and freedom to the people of Europe.

After two years and three months of arduous negotiations, the extended meeting in Vienna of the originally stipulated year-long European Security Conference finally drew the curtain on 19 January. Nearly 1,000 reporters from countries around the globe gathered on this spot, making the famous city of Vienna in the heartland of Europe momentarily regain its status as the political center of the world. Countries in the East and West highly rated the great fruitfulness of this meeting, praising the final document passed by the conference as an important landmark in the history of post-war international relations that reflects the latest progress of new East-West relations in the search for peaceful coexistence, and saying that it will make the global political detente begun in the mid-1980s enter a new era. People sang such praises as these about the conference in one voice, a truly rare occurrence in the 10-odd years since the first conference in Helsinki in 1975.

Those in diplomatic circles concur that the nearly 100-page final document passed at this conference far exceeds the preparatory material of the meeting two years ago. It is the most outstanding of all European Security Conference documents. Three document "baskets" attracting the most attention were on the principles of cooperation, economic and trade relations, and human rights. The contents of the last item hold a prominent position. Representatives of Western participatory countries commonly held that the flexible and compromising attitudes of the USSR and Eastern Europe, especially the Soviet Union, were unprecedented in the post-war era with regard to human rights issues. The document details stipulations regarding the freedom of citizens to receive information, freedom of

religion and speech, freedom to migrate and travel, and other citizens' rights. For example, the pertinent bureaucracy must handle within three days visa applications to go abroad to visit relatives due to family emergencies. To safeguard against the human rights provisions becoming mere scraps of paper, the document lays down a series of supervisory and checking measures. If a human rights violation occurs in a signatory nation, other signatory nations may ask for an explanation at any time. Concerned human rights supervisory groups or individuals may undertake investigations to get an answer on the matter at any time. Before the next conference is convened in Helsinki in 1992, separate special meetings will be held annually in Paris, Copenhagen, and Moscow to examine each country's activities with regard to human rights.

Observers noted that although this meeting of the European Security Conference achieved wide-ranging concurrence on human rights issues, it is still difficult to judge whether each stipulations will be generally respected in various countries since they have not been tested in practice. That such wide-ranging agreement could be reached with the West on this most sensitive matter, which has always bound the hands of the Soviet Union and Eastern Europe in East-West relations, fully demonstrates that Gorbachev's new political thinking has made a breakthrough in traditional ideology. Contact with those richly knowledgeable about diplomacy told this reporter that it seems Gorbachev already recognizes that it will be difficult to make the West really believe in his reform policy or make the USSR truly become a recognized world partner if he firmly persists in denying beneficial and valuable Western concepts and political behavioral norms. It would be even more difficult to achieve real breakthroughs in developing political, economic, scientific and technical, and cultural cooperation with the West.

In order to further promote overall East-West cooperation, the Vienna conference also determined that it will convene a series of special meetings in the next few years. For instance, this year, meetings on environmental protection and the flow of information will be held in Sofia and London. An economic cooperation meeting will be held in Bonn next year. Malta will host a peaceful resolution of conflicts meeting in 1991. With reference to disarmament, the conference decided to begin negotiations on conventional arms in Europe and establishment of trust and security measures in March 1989 in Vienna. The final conference document makes very detailed stipulations regarding the aims, scope, verification, and negotiating procedures for conventional arms in Europe, laying a good foundation for fruitful negotiations. This indicates that East-West arms control negotiations will enter a new stage.

During the conference, one could clearly and easily discern that there is a new feature to ponder in East-West relations: At the same time that conflicts tend to relax



among differing political blocs, internal frictions within political blocs become more frequent. For example, at a key moment just before the close of the conference, a serious difference arose with Greece, a fellow NATO member, over the issue of whether Turkey would bring its southern port of Mersin into the scope of negotiations on European conventional weapons. This caused the United States, the leader of the alliance with the two countries, to become extremely angry. In the end, the United States and the Soviet Union mediated until both

sides swore to compromise. There was friction between the United States and France on whether neutral and nonaligned nations could participate in conventional weapons negotiations and with member states. There were differences between the United States and NATO countries on whether to hold a human rights conference in Moscow in 1991. The Soviet Union and its allies were also out of step on a few issues. These phenomena indicate symptoms of a breach in the traditional East-West alliance boundary lines of international politics.

### **Song Renqiong Speaks to National Meeting on Ideological Education**

OW1701173189 Beijing Domestic Service  
in Mandarin 1030 GMT 14 Jan 89

[Text] At the national meeting on commemorating outstanding workers in ideological education among youths, which ended this afternoon, Song Renqiong, vice chairman of the Central Advisory Commission, urged that, in the interest of the party and the people, the whole society must pay attention to doing a good job in ideological education among youths.

Song Renqiong said: Young men are a vital new force for reform and construction. Doing a good job in ideological education among youths is not only the responsibility of the CYL and educational departments, it is also a glorious mission for the party and society as a whole. We must formulate laws and implement policies to create conditions for ideological education among youths. The party, government, military organs, public organizations, enterprises, and institutions must offer support and cooperation. We must upgrade the environment of culture and public opinion in which youths grow. All cultural sectors, including newspapers, TV, radio, movies, opera, and publications, must work hard to provide rich and healthy spiritual food for the nourishment of youths. With a sense of responsibility for future generations, we must stress social benefit [she hui xiao yi 4357 2585 2400 2654] and conscientiously resist the corrosive influence of decadent cultures on youths.

Song Renqiong stressed: The more reform deepens, the more we must bring into play the party's political advantages. We must guide youths to strengthen their sense of historical and social responsibility at critical moments of reform, and establish the common ideals of carrying out the four modernizations and rejuvenating the Chinese nation, being of one heart and one mind with the party, and working hard to accomplish the tasks of improving the economic environment, rectifying the economic order, and deepening reform.

During the meeting Rui Xingwen and Yan Mingfu, members of the Secretariat of the CPC Central Committee, held discussions with representatives attending at the meeting.

### **Theorist Zhang Xianyang on Expulsion From CPC 'Straitjacket'**

40050247 Hong Kong CHING PAO [THE MIRROR]  
in Chinese No 138, Jan 89 pp 44-45

[Article by Fang Fei 2455 5481: "Zhang Xianyang 1728 7359 2254 Talks of Breaking Out of a Straitjacket"]

[Text] Sometimes I really feel like saying, it would have been better to have me expelled 10 years ago. A theorist who cannot tell the truth is not a true theorist. I am now very free, because I have broken out of my straitjacket. I am unrestrained, I even breathe free and normal.

"One year ago I stood here to give a speech in my capacity as a member of the CPC, but one year later, I am no longer a member of that party, but I have much more freedom." These were the first words that theorist Zhang Xianyang said when he spoke at the "academic activities month" held by the union of graduate students of Beijing University. He had been in seclusion doing some writing ever since the "anti-bourgeois" movement of 1987. When I heard this, I suddenly thought of interviewing this theorist, thinking that I might perhaps be able to bring to light what "secrets" there may have been about his year of "seclusion." That is also what overseas readers would be interested in, and finally I agreed with Zhang Xianyang on the time and had my interview with him.

### **Out of the Straitjacket**

**My remark:** I just heard that you gave a very emotional speech at Peking University, and that the speech has made a strong impression. Congratulations are well deserved.

**Zhang:** During the past one year, I have hardly said anything, but I felt I must speak, because it is on this spot here that I have a position to defend, and at times I really had wanted to talk; it would have been better if I had been expelled 10 years ago. A theorist who cannot tell the truth is not a true theorist. Moreover, being a party theorist makes it very difficult to be a true theorist, because the primary duty would then be to obey the absolute will and documents of the party. But how can a so-called theorist amount to anything if he is merely a spokesman for Central Committee documents? Sometimes, there was not the slightest scientific atmosphere anywhere. Now I can say that I am free, and, moreover, very much free, because the straitjacket that held me has been ripped off. I am unrestrained, I even breathe freely and normally.

**My remark:** This is essentially the problem whether scientific character can identify with party character.

**Zhang:** Scientific character and party character are at times at odds with each other, and very much at odds; historical experiences have made this very clear.

**My remark:** It is said you have had several opportunities to go abroad.

**Zhang:** Altogether five times, but each time down came the "chopper." It did not surprise me at all, and I was not at all discouraged. My ideological remolding has a history of 20 years, and I have so far not yet been "rectified" to a breakdown point. There have indeed been people who thought every day to "rectify" me, men like Hu Qiaomu [5170 0829 2606], and Deng Lique [6772 0500 5028], but the one that was brought down was not Zhang Xianyang. There is a saying, "When the heavens threaten to fall, a tall man will prop it up." I am quite willing to do that, because many men with breadth of

vision and with accomplishments in this same profession could quite possibly engage in theoretical research. China needs them, and, come to think of it, whether I shall be able to "prop up" or actually get "chopped down," it would still have been a worthwhile effort. I am very happy.

### Critical Research of Marxism

**My question/remark:** What is the subject of your recent research?

**Zhang:** Critical research of Marxism. Although Marxism has had its days of glory in history, there is no denying that it is now at a crisis. My wish has always been that the present shall be the time when the straitjacket of Marxism will be loosened somewhat. Actually, there is nothing mysterious about it; what is needed is that the whole accumulation of its literature be studied as something of a system of thought that requires development, but there must be no lack of a regenerative mechanism. The crux of the matter is only to gain greater freedom in methods; Marxism could then be extricated from its crisis.

Before I had gone to the interview with Zhang, I had heard that his article "How Should We View the Development of Marxism in China During the Last Ten Years" had been published in the May 1988 overseas issue of LIAOWANG [OUTLOOK]. The original draft had contained criticism of Hu Qiaomu and Deng Liqun in three places, but Mu Qing [4476 7230], director of the New China News Agency, had suggested "Cut three down to one," and only one reference was retained. When I brought up this old matter again today, Zhang Xianyang became extremely agitated: "How many times have Hu Qiaomu and Deng Liqun written about me and criticized me? I did not keep statistics, but China's theorists will not be at peace until every aspect of the thoughts, theories, and ideologies of these two men are cleared up. In our thinking and in our ideology we used to isolate ourselves from the outside world. For instance, one piece, *River Elegy*, has the decision-makers in an awkward predicament. And then, for instance, while we acknowledge that there is corruption, we also tolerate it."

**My remark:** Since you mention *River Elegy*, I remember that the RENMIN RIBAO, the GUANGMING RIBAO, and all larger newspapers throughout the country printed Dr Yang Zhenning's [2799 2182 1337] criticism of *River Elegy's* short article, just as if New China News Agency had a monopoly on what manuscripts were to be printed. It was really unheard of.

**Zhang:** Yu Haocheng [0060 3185 2052] called the event the "fake foreign devils" strike again. Now that we are still tossing about in the morass, not allowing us to sometimes cry out is really too preposterous and too immature. It is as if a person who is extremely overweight himself tells someone much slimmer that he should not eat any more meat in order to slim down.

### Still Wary of Criticizing "The Yanan Talks"

**My remark:** I would like to ask how you would define the term "criticism," and what the reaction to "criticism" is in mainland China.

**Zhang:** The term "criticism" has never been properly used in China, but used to connote political struggle methods that descended like violent storms. What I now want to create, and do research in, is a branch of scholarship that engages in the criticism of Marxism. This is extremely important work. Trying to bypass Marxism, or to defile it, would not accord with the law of history, but what is indeed precisely required is criticism. Since Gorbachev's "New Thought," the CPSU has started a very thorough criticism of Stalin, and at the same time proposed opening up in ways of thinking and in ideology. It included a reversal of the judgment on Bukharin and allowing Sakharov to visit the United States; these are historical re-examinations, selections, and opening up over the whole line. But China is lagging behind by one measure, or even quite a few measures. No one has had the courage to criticize Mao Zedong's "Talk at the Yanan Forum on Literature and Art." At that time, Hu Feng [5170 7364] put forward some dissenting ideas and was "looked upon with extreme hatred" and "resolutely opposed." Actually, according to the "Constitution," all people are allowed free discussion to their heart's content, are allowed to put forward dissenting opinions, are also allowed to make amendments—but why is it that the "Talks" must not be touched! There are still many people in China who yearn for the life of the "Mao Zedong era." This is the most tragic aspect of not having thoroughly opened up mentally and ideologically.

### Reform Needed in Mental Attitude Toward the Legal System

**My question:** Ideological theorists are now reviewing the last ten years, but what I wish to ask you is what your assessment is of the legal system during the last ten years?

**Zhang:** During the last ten years, the authoritativeness of the rule of law has never been fully established, and, furthermore, opportunity was lost for the choice, which at one time should have been ours, to extricate China from the shackles of a "rule by man." In the next term of ten years, any indecision, hesitation, or conservatism can make us lose a new opportunity.

**My remark:** That is extremely regrettable. It should really be a warning.

**Zhang:** Don't forget today's reality. That is the old grandfather of *Red Sorghum* (a recent motion picture) again toiling for another 40 years. But it is a pity that it required a piece like *Red Sorghum*, which "exposed" in

front of "foreigners" the ugliness, stupidity, and backwardness of the Chinese, to get a "Golden Panda" award. However, as long as the ghosts of feudalism are still about, we might as well do some "exposing!"

**My remark:** At a time when the mainland is calling for supervision by public opinion and repeatedly calling for punishment of "official racketeers," the law appears quite helpless in this situation.

**Zhang:** Law is originally an expression of the will of the people; that is the real purpose of legislation. What China now urgently needs is a change in its thinking on the legal system, a change of the country's standards to become the standards of the citizens. If one were to ask what the purpose of legislation is, then it is really a protection of the ever-growing sphere of freedom enjoyed by the citizens. However, party worship and state worship hinder development of a modern legislation. It is very obvious that the party has absolute commanding authority over the entire process of legislation; it is, therefore, the party that is actually legislating, and the people are merely left to raise their hands in approval. A price has to be paid for reform—that much has been accepted by the people at the start—but to pay the price for China's rule of law, the authorities seem to lack sufficient courage.

(The person interviewed has not checked the abovementioned report; any mistakes or omissions are the responsibility of this reporter.)

### Wang Li's Interview on Cultural Revolution Stirs Controversy

#### Plans To Write Memoir

40050314 Beijing XIN GUANCHA [NEW OBSERVER]  
in Chinese No 3, 10 Feb 89 pp 15-16

[Article by Shao Yanxiang 6730 3601 4382: "I Am Glad To Read 'An Interview With Ill Wang Li 3769 0500'"]

[Text] Looking back on those years, when the waves of the "Great Cultural Revolution" were surging, before Tiananmen was a sea of people, millions of heads bobbing and continuous hailing of "long live." As soon as the singing of Chairman Mao's quotations started, mass criticism began both in speech and writing. As soon as the dance of loyalty stopped, long spears and gun-smoke began to rise. It was indeed overwhelming and earth shaking. But before long, all of a sudden, everything was over and gone. Today, grade school students reportedly do not even know what the Cultural Revolution is. At first, talking or writing excessively about the Cultural Revolution was discouraged. Then it was prohibited. Except for Ba Jin [1572 6855], who proposed building a Cultural Revolution museum, a few unsensible persons tried to make some unsensible remarks about the Cultural Revolution and they were indeed "very lonely in the new literary circle and peaceful in the

old battlefield." Chinese have said a clear-cut goodbye to yesterday. What a forgetful nation this is, sighed many Chinese at home and abroad!

Are Chinese really so forgetful? Have 1 billion Chinese forgotten about the 10 years of the Cultural Revolution? How can we treat this amnesia? We do not need to follow Deng Tuo's [6772 2148] prescription and pour dog blood over our head, for Wang Li, former member of the Central Cultural Revolution Group, is here to lecture us.

On 23 December 1988, Shanghai's LIANHE SHIBAO published a lengthy exclusive "Interview With Ill Wang Li" under a sentimental subhead—"The Greater the Sufferings, the Deeper the Love." This article, which was "checked, approved, supplemented, and edited" by Wang Li so as to "clarify and correct various rumors about him," is reportedly "the first accurate official report on him in 20 years."

On this matter, scholar Yu Guangyuan [0060 0342 6678] commented: Wang Li was an important figure in the Cultural Revolution. Can we use his own words as a criterion for clarifying his deeds and evaluation? Will there be any justice if Jiang Qing is allowed to study Jiang Qing and Wang Li to evaluate Wang Li? Everybody knows what happened to Yan Jiaqi's [0917 1367 0366] book on the study of the Cultural Revolution. How could such an article be allowed to occupy a full page of the newspaper!

Yu Guangyuan's indignation is understandable. However, I have to say that the revered Mr Yu was wrong. It was true that "The 10-Year History of the Cultural Revolution," jointly written by Gao Gao [7557 4108] and Yan Jiaqi, was banned after its publication in 1986 and that the departments concerned prohibited the compilation of dictionaries concerning the Cultural Revolution in 1988. But since "An Interview With Ill Wang Li" was published in December 1988, no one has heard any ban on its reprinting or any official criticism. I think this could be a very good phenomenon.

The question is not how Wang Li evaluated himself, including how he claimed that he had "the third kind of loyalty" which "was far beyond the realm of thought attained by Qu Yuan and Jia Yi." I believe that readers can make their own judgement in this regard. Wang Li provided some information to "clarify rumors and slanders in society and erroneous reports in some memoirs and books." He also said he would write a memoir. I would be glad to see them in print. It is not just with Wang Li. What is wrong with starting a special column, called "the Cultural Revolution: Remembered by the Members of the Central Cultural Revolution Group"? Only by increasing the degree of openness, making archives public, encouraging private research of history, and facing inevitable contention can we help clarify historical facts and expose the truth of history. This not

only can stop those concerned from trying to "glorify themselves" but also can unveil all inaccurate, false, and fabricated records of history.

Wang Li said that he has been working since 1982 on a research project, suggested to him by a leader of the central government. The title of this research is "How has the CPC Central Committee Developed Marxism and Leninism Since the 3d plenary session of the 11th CPC Central Committee?" My interest in his research results is much less than my anticipation for his memoir because the latter is valuable as historical material. Historical materials are not true history. Only by collecting all historical materials provided by those who were involved in the Cultural Revolution, eliminating the false, retaining the true, and setting facts straight, can we truly "negate the Cultural Revolution." When we study the history of the Cultural Revolution, as with all other historical issues, we should study issues of personal feelings in a general, not careful, manner and sum up experiences in a careful, not general, manner. It would be impossible to sum up positive and negative experiences without discovering all facts and materials.

The author of the exclusive interview said: "The Cultural Revolution was the most complex period of Chinese history. Now 20 years have passed. It is about time for us to find out, analyze, and appraise in a truth-seeking manner what Wang Li had done during the Cultural Revolution." The findings of such a study would be rather limited if it were based on Wang Li. A study of the entire Cultural Revolution, including special studies on individually concerned personnel and events, is long overdue, isn't it? It would be very strange if we "clarify, analyze, and appraise" only Wang Li's issues and ignore others or if we publish only Wang Li's "corrections" and refuse to listen to other people's remarks. We have seen many strange things in recent years, but we hope that the occurrence of similar events can be minimized in the future even if it cannot be prevented.

I liked it when Wang Li said: "Wang Li has always been a citizen of the People's Republic of China." He has won the freedom of speech and publication to "clarify things" from his point of view. All other citizens of the People's Republic of China naturally enjoy the same civil liberties—freedoms of speech and publication. The fact that Wang Li expressed his opinions in public without interference implies that the restriction or ban on talking about the Cultural Revolution has been lifted. I do not think that Wang Li, who was a former member of the "Central Cultural Revolution Group," would be favored while other citizens, who were victims of the Cultural Revolution, are prejudiced against this issue. Are we really going to follow the formula of "great writers can but we can't" and make fools of ourselves by saying "Wang Li can but you can't"?

I am glad to read "An Interview" because it shows that a small step has been made toward freedom of speech and the research and contention of history concerning the Cultural Revolution.

16 January 1989

### **Calls Self Fallen 'Star of China'**

40050314 Beijing XIN GUANCHA [NEW OBSERVER]  
in Chinese No 3, 10 Feb 89 p 16

[Article by Mu Hui 3668 1920: "If This Can Be Tolerated, What Cannot?—An Imitation of Big Character Poster"]

[Text] Since model plays reappeared on stage, we have heard quite a few things about the "strongmen" in the Cultural Revolution. Chen Boda [7115 0130 6671], for instance, has published some articles that are not strictly academic. This of course has something to do with satisfying readers' curiosity. But people who have stayed in "cowsheds" somehow can smell a smack of nostalgia about the Cultural Revolution. "An Interview With Ill Wang Li," which I read recently, proves that their sense is correct. Wang Li, then member of the "Central Cultural Revolution Group," babbled about his merits and contributions, complained that he was wronged, and called for redress. Someone wrote it down in a respectful manner and expanded it into a lengthy article, which, much to our surprise, was then allowed to be published. Before that, we were told that no one was allowed to write about the Cultural Revolution. Then why is Wang Li an exception?

In this unusual article, readers see a tall and glorious Wang Li. He was a great antirevisionist hero, who "visited Moscow 10 times and hung on to the Diaoyu Island" (if I remember correctly, Guo Moruo [6753 3106 5387] wrote this inscription for Kang Sheng [1660 3932]), not to mention his early years of participation in the revolution. About the Cultural Revolution, Wang Li did not utter a word of self-criticism (not to mention admitting that he was guilty). According to his own words, Wang Li was actually "Tao Jr.," who, like Tao Zhu [7118 6999], was overthrown by Jiang Qing and Kang Sheng. He even said he was a fallen "star of China"!

Who is Wang Li? Wang Li solemnly declared that it was "unscientific and wrong" to put "Wang, Guan, and Qi" together. He vigorously defended his point by pointing out the differences between them. However, as a worker of HONG QI and a victim of the Cultural Revolution, I can see more similarities than differences between them. Chen Boda, Yao Wenyuan, Wang, Guan, Qi, and their subordinate Lin Jie [2651 2638] had held leading positions at HONG QI at different times during the Cultural Revolution. They were all very different from each other, but they all stirred up trouble in the Cultural Revolution, attacked one person on one day and accused another on the next day, caused thousands of revolutionaries to lose their families and separate from their wives and children, and turned China back to the darkest feudal and fascist rule. This shows that if we must say they were different, they were only different in quantity, not quality. Wang Li complained that he had been



framed as a spy by Kang Sheng. But why didn't he talk about the time when he and his gang criticized and denounced Fan Ruoyu [5400 5387 1946] as a spy and implicated a large group of people? I have once attended such a meeting where they criticized and denounced people and Wang Li was seated on the platform at the time. Why didn't he talk about the facts and consequences of the persecution of another member of the editorial committee, namely Xu Liquan [6079 4539 5028]? He dwelled on the glorious achievements of "Yu, Zhao, and Li." But why didn't he mention a word about the death of Yao Zhen [1202 5271], who was a member of "Yu, Zhao, and Li"? ... I was only an ordinary editor of a magazine. But since I opposed granting party membership to Guan Feng's [7070 6912] brother-in-law, who did not look like a communist at all (everybody in the entire party branch opposed it except for a Mr Wang), a few days after the Cultural Revolution started, Guan Feng's brother-in-law and Mr Wang relied on the power of Wang, Guan, and Qi and coerced a group of people to write big character posters to "expose" me, and deprived me of my right to work for 10 years. This was only a small thing, but it showed how arrogant they were when they "combated and prevented revisionism." Now

Wang Li is enumerating his merits and contributions and Guan Feng, who was barred from Beijing, is still living in Beijing. Borrowing one of the terms used in the Cultural Revolution, if this can be tolerated, what cannot?

History should be written by the people. If we had let Qin Gui write the history of the Song Dynasty, he would of course have become a big patriotic hero. Writing a report on Wang Li based on hearsay without a direct interview with Wang Li can cause many mistakes. But a direct interview with Wang Li, Guan Feng, and Wang Li does not necessarily guarantee an accurate historical account of "The Rise and Fall of the 'Gang of Four.'" It might even lead us to write lies to whitewash them and erase all the blood and tears shed by thousands upon thousands of victims of their persecution. Their victims should be the most qualified people to appraise them. Their victims should also be the most important targets of our interviews. At a time when reform encountered serious problems, we heard sounds of nostalgia about the Cultural Revolution with Wang Li singing the highest note. Shouldn't we think about this subtle relationship?

## NATIONAL AFFAIRS, POLICY

**Economists Discuss Inflation, Stagnation**  
*OW1701233489 Beijing XINHUA in English*  
1442 GMT 17 Jan 89

[Text] Beijing, January 17 (XINHUA)—The possible occurrence of stagflation, or economic stagnation accompanied by inflation, has aroused caution among Chinese economists, said today's English newspaper CHINA DAILY.

Stagflation first hit developed countries in the West, and left terrible memories with those who experienced it.

In Italy, for instance, industrial production dropped by 19 per cent between 1973 and 1975 while the price index increased by 17 per cent.

Some experts hold that stagnation is likely if the current monetary tightening goes too far while prices continue to rise. Others are not so pessimistic, saying there is little probability of stagflation in the country.

An article by Yan Kailin in a recent issue of ECONOMIC DAILY said whether or not stagflation will occur, the possibility that it might should be heeded because of its serious consequence. That is, individual consumers as well as businesses would suffer from price rises, and business profits and government revenue would keep decreasing, resulting in even greater difficulties.

In Yan's opinion, the possibility of stagflation is very real.

Another article by Wei Jie and Zhang Yu, also in ECONOMIC DAILY, expressed similar concerns.

It said the exceptionally high economic growth of the past few years was achieved through increased input to expand production, but improvements in profits and technology have been insignificant. In these circumstances, combatting inflation with a tightening policy, the article said, is likely to cause stagflation.

Wei and Zhang recommended five ways to withdraw currency from circulation as an effort to forestall stagflation. These are: cutting bank loans, reducing the size of capital construction and institutional buying, devaluing the currency, selling state bonds and selling state-owned assets.

But all these, they said, are just stop-gap measures, necessary but unlikely to remove the root cause of inflation, and therefore unable to avert stagflation for long.

They concluded that the permanent cure must be an all-out effort to deepen the economic reform.

## Statistics Bureau Forecasts 10 Percent Economic Growth

*HK1901100489 Beijing CHINA DAILY in English*  
19 Jan 89 p 1

[By staff reporter Zhang Yuan]

[Text] China's State Statistics Bureau is predicting an economic growth rate this year of at least 10 per cent, contrasting with the central government's forecast of 8 per cent.

The bureau's report, released yesterday, estimates that in the first quarter of this year industrial growth will exceed 10 per cent, due in part to last year's credit expansion and rapid growth.

Current austerity measures and tight supplies of energy, raw materials and transport should rein in industrial production somewhat, it said. But no significant decrease was foreseen.

The report said that agricultural production should rise, barring natural disasters, but that it would be difficult meeting planned targets.

Low State purchase prices have dampened farmers' interest in growing cotton and pigs, the report said. Cotton production will continue to decline, it warned, unless something is done.

Last year, 4.06 million tons of cotton was produced, down 4.3 per cent from 1987.

It will be difficult stabilizing the domestic market this year, it said. The momentum of last year's inflationary pressures alone will guarantee an 8 per cent increase in this year's retail price index.

Individuals' cash in hand was estimated at 54 billion yuan at the end of 1988, compared with only 18.9 billion yuan in 1987, adding great volatility to the market.

The report suggested, therefore, that any official price increases be delayed.

In its review of the past year's economy, the bureau noted that China's gross national product was 1,369.4 billion yuan, up 11.2 per cent over 1987. National income was 1,133.8 billion yuan, up 11.4 per cent over the previous year.

Rural enterprises developed especially rapidly, producing a total of 1,500 billion [figure as published] yuan worth commodities, up 17.7 per cent.

About 40,000 new capital construction projects with an investment of at least 50,000 yuan each were completed and went into operation.



By the end of November, 10,220 capital construction projects were stopped or delayed, saying the country 33.4 billion yuan in investment.

Nevertheless, investment exceeded 430 billion yuan, 130 billion yuan more than planned.

Import and export volume last year reached \$102.9 billion. This was up 24.4 per cent over 1987 and reflected a growing trade deficit. Exported goods were worth \$47.6 billion, up 20.8 per cent, whereas imports were \$55.3 billion, up 28 per cent.

Foreign investment last year was estimated at \$8.8 billion.

Industry sharply accelerated its growth compared with agriculture. At the beginning of 1988, industry was expanding three times faster than agriculture, but by the end of the year it was growing seven times as fast.

### Appraising Validity of Tight Money as Macroeconomic Policy

40060272 Beijing JINRONG SHIBAO in Chinese  
18 Jan 89 p 3

[Article by Wang Songji 3769 2646 1142: "Macroeconomic Policies—Reflection on the Past 10 Years"]

[Text] *Abstract: An obvious feature of China's macroeconomic policy between 1984 and 1988 is the enactment of three periods of retrenchment. The three periods of retrenchment span 5 years. There have been major changes in the economic environment before and since. Among the most obvious are the creation and operation of a dual system. Under these new conditions, readjusting the structure to improve returns has become impossible, as enterprises depend on long-term retrenchment policies to check demand. Thus, we must turn our thoughts to some fundamental questions involved in macroeconomic policy so as to make appropriate decisions and thereby provide a basis for macroeconomic policy selection.*

China's economic reform has been under way for a decade now. We must say that an exceedingly important topic for study is to review and deliberate on macroeconomic policies while reflecting on every aspect of the major changes to social life and the lessons learned.

### Three Periods of Macroeconomic Policy Changes

When reforming an economy that is commodity-based and basically managed via centralized planning methods, such a transformation or reform essentially tends towards economic marketization, regardless of the appearance of certain temporary "reverse currents" that were key elements of the old system.

In reality, the process of economic marketization is also one of continuously strengthening the regulatory function of currency mechanisms. Such strengthening is seen not only in the transformation from microeconomic

planning that is principally performance-oriented and quota-fulfillment towards one aimed at maximizing monetary income. It is also reflected in the state's choice of essential policy tools for macro-restructuring and control. Therefore, we may also rationally suppose that the decade of macroeconomic policy changes is always represented by changes in monetary policy.

From 1979 until now, there have been three periods in China's currency policy changes: relaxation—constriction—relaxation—constriction—relaxation—constriction. The three macro-policy periods of the last decade are marked by the constrictions of 1982, 1985, and the one beginning in the fourth quarter of 1987, which lasted until the end of 1988. The three constrictions were expressed in peculiar ways. That is, the first half of 1988 was called a constriction although the actual policy operations process was still rather flexible. Plans for truly strict restraint were not implemented until August 1988, after nationwide panic buying of consumer goods, a landslide of savings deposits, and the deterioration of prices. It is noteworthy that since 1984, it is increasingly clear that there are periods of stagnation between each change in currency volume represented by total loans and each change in nominal state income. According to economic data since 1985, the time lag between enactment of currency tightening in China and a drop in industrial production is approximately five months.

It should be mentioned that in recent years, fiscal policies have not held a leading position in macroeconomic restructuring because of drops in the proportion of gross social value and income within a smaller scale of fiscal allocations. Since 1982, the annual increase rate of expenditure has never tallied with fluctuations in periods of constraint.

### How To Appraise the Three Periods of Tight Money

Many economists advocating strict restraints take the situation after the first constriction in 1983 as an example to explain that constraint policies really do have the effect of creating a buyers' market where supply is slightly greater than demand. The problem with this is that the situation in 1983 was rather special. First, the agricultural labor productivity released in 1983 still has not reached its relative limits. Furthermore, the rapid improvement in the agricultural situation provides a material base for domestic market stability that is hard to overlook. Next, in 1983, the impulse of enterprises and localities to expand was appropriately checked by planned management of production resource prices. Thus, it was very hard to set off a chain of price fluctuations propelled by production costs. Then again, also in 1983, there was still no repurchasing and reselling at a profit in the area of circulation because at that time there was no dual price system for production materials as a systematic basis for pure currency profit seeking. And last, the influence of the pressure of over-demand

created by credit inflation in the fourth quarter of 1984 was extremely long. Such special circumstances obviously did not exist before 1983.

In sum, we must not overlook the huge difference in the economic environment of 1984, when the dual system was in place, and 1983, before it was created. Seeking long-term dependence on retrenchment policies to curb demand, readjust structures, and improve returns is impossible. Changes in the currency supply increase rate may effectively influence production levels to a certain extent, given that China still lacks the economic condition of a perfected capital market in the true sense of the term, and that expansion of enterprises mainly relies on foreign financing through bank loans. Thus, we can and should utilize changes in the currency supply increase rate as a powerful measure to control economic overheating or to improve the level of effective demand. Due to the special circumstances behind credit inflation in the fourth quarter of 1984, it can be said that it was pretty good that a monetary restraint policy was implemented in the spring of 1985. But there are three points that we did not expect at the outset. One, the strength of the restraint policy upon the level of industrial production. Two, the difficulty of avoiding "rigid uniformity" in restraint and realizing ideal structural readjustment. Three, the relationship of restraint to the drop in industrial production, increased losses incurred by enterprises, and reduced fiscal revenues. The central authorities' decision regarding flexibility on currency controls in 1986 was entirely correct. Without such flexibility, in other words, if the strict currency restraint policy were continued, it would be difficult to estimate the potential losses to economic growth.

The third period of China's macroeconomic restraint policy can only be said to have truly commenced after the panic buying of May 1988, repeated in August, along with the landslide of savings deposits. In 1987, the monetary policy reacted to an evident upward trend in the consumer price index. The tight money policy began in the fourth quarter of that year.

In general, it is possible to make a comparative analysis of the advantages and disadvantages of the regulatory effects of macro-policies only after a considerable time has elapsed. Because the restraint policy currently in force and the second one in 1985 are roughly the same, based on historical experience, we can predict that if the third one continues too long, it certainly will have the effects of making industrial production decline, increasing product inventories, impeding fund cycles, lowering the growth rate on state interest income, and making prices react only feebly (since restraint and tight money will not solve the issue of checking consumption demand).

#### **Several Questions Related To Choosing Macroeconomic Policies**

We believe that the frequent changes in China's macroeconomic policies of recent years may on occasion be

understood as "having no choice." However, our choices and their level of manipulation ought to be enhanced. We must consider the following several theoretical issues.

#### **A. The real nature of the relationship between currency supply and production.**

The money supply directly determines changes in nominal income levels while also affecting actual output growth rates within the realm of possible production in economic systems where the banking industry is a state monopoly and money markets have not yet developed. We oppose overly strict, overly long retrenchment because we advocate going all out to avoid potential gross national product losses, using warranted economic growth rates to increase effective demand, and using appropriate levels of monetary expansion to indicate warranted rates of economic growth. However, we often are inexplicably censured, as though we had "jumped through the amazing hoop of monetary hallucinations, in only seeking to increase the volume of money." Or, we have even been misunderstood as far as "it is common economic knowledge that economic growth requires a certain base of capital accumulation."

#### **B. The issue of how to recognize periodic fluctuations in socialist economies.**

With renewed spirit, we must unite analysis of macroeconomic policy choices to the attention-demanding issue of periodic fluctuations in socialist economies. Macroeconomic policy has to turn on economic growth stages, fluctuation, stability, and adjustment theory, and not simply on long-term qualitative analyses without clear time limits such as "socialist economies are resource restrained economies." In certain contexts, the issue of macroeconomic policy selection is one of appraisal and handling mismeasurement and miscalculation of short-term trends. Moreover, such short terms definitely appear during certain specific short-term economic growth fluctuations. That is to say, they are short terms with certain features of periodic economic fluctuations.

#### **C. Special issues regarding currency demand in China in recent years.**

If we say that determining the money supply growth rate is a primary question in the choice of macroeconomic policy, then obviously, its goal also may be said to be the realization of monetary supply and demand. But under the specific national conditions in China, microeconomically led, simple increases in the demand for money are never equivalent to rational demand for money. Seen from events in recent years, it appears that monetary demand in China is characterized by gradual growth that is insufficiently stable. Clearly, this adds many difficulties to the theoretical proof of macroeconomic policy choices.

D. Whether money supply is an endogenous or exogenous variable.

Economists advocating support for long-term tight money restraints imply that money supply is an exogenous variable for which the authorities may independently set policy. We tend toward the viewpoint that money supply is jointly determined by policy variables of the currency authorities, individual and residential savings, enterprise demand, and the actions of specialized banks and other financial institutions. Precisely because of this, while paying attention to the function and operation of currency policy, at the same time, we must neither make excessive demands on monetary policy nor improperly attribute to it certain abnormal phenomena in economic behavior.

E. Determine whether there are limitations to macroeconomic price indices.

In 1988, consumer prices rose to unforeseen levels, meaning great potential risk to China's reform and social stability. Everyone knows that the third macro-restraint aimed at stability was mainly related to the background of overly fast price rises in the economy. I believe that it is inadvisable to use simple rational expectancy theory to explain the panic buying behavior of urban residents in China in 1988. Urban residents' panic buying was basically a kind of capitalist behavior. But, why did they panic buy at a certain specific time in 1988, and not before or since? I am afraid that in great part, it is related to the atmosphere created by the ill-suited introduction of certain reform measures and propaganda media. Price fluctuations will naturally be intensified if such inflationary purchasing power behaviour created by mass psychology expectancy makes a short-term reappearance in a system originally pressured by excessive demand.

F. Can moderate inflation intensify over time?

The greatest worry of economists who advocate firm support for macroeconomic restraint policies is whether moderate inflation will intensify over time if unchecked. Such good and honest anxiety is easily understood. I will only mention these points: 1. All economic systems have self-adjustment mechanisms. If used appropriately, inflation can be solved, no matter how high. 2. China currently lacks a spontaneous inflation spiral mechanism. 3. If it is hard to reverse moderate inflation, its thorough eradication makes one suspect that this is contrary to objective laws. 4. When publishing theories under the premise that inflation clearly denotes that general price levels continue to rise, economists should distinguish between macroeconomic policies for existing price rises and the conscious application of inflationary policies using currency expansion measures to raise general price levels. 5. In order to increase effective demand where there still is moderate inflation, appropriate flexible currency controls need not worsen supply and demand relations.

### The Policies We Should Adopt Henceforth

The correctness of China's macroeconomic policy choices directly determines the development course for the entire national economy. I believe there are several alternatives everyone may ponder regarding the experience and lessons of multilevel macroeconomic policy selection.

First, in the near term, the major problem facing macroeconomic policy selection in China is not how to firmly maintain restraint, but rather, how to be flexible against a background of restraint, and the degree of flexibility. I suggest we loosen money supply controls after the spring of 1989, namely, from the last third of February. This can increase nominal national income estimates 10 percent, and total loans will grow 14 percent. We should readjust the original restraint plan coefficient by an approximate 1:1.4 proportion. At the same time, we should make a plan to study rather large-scale readjustment of deposit interest. We should use higher interest rates to check money demand, using an amount to flexibly control and ensure normal production turnover, and raise production growth rates.

Second, in 2-3 years' time, we should formulate and implement a complete set of policy regulatory plans. The initial conception is to (1) use fiscal policies to guarantee stable, high-speed growth rates; (2) use fiscal policies mainly to solve problems such as a lack of funds for key construction, runaway group consumption, etc.; (3) not use income indexing policies, but propose that people start to use second income sources to offset the erosion effect of inflation on income; (4) determinedly encourage exports, advantageous to getting rid of restrictive bottleneck-inclined production policies. We also can think about having the People's Bank stipulate a proportional industrial structure for loan allocations to various specialized banks, and using administrative measures to strengthen currency regulation; (5) set consumption guiding policies advantageous to checking consumer precocity; (6) support principles for giving priority to agricultural growth, and use various methods to ensure the supply of production materials used in agriculture.

Third, we must consider issues from the long-term view. We must also: (1) speed up reform of the enterprise ownership system and appropriately free capital funds, try changing the rural land system, and continuously seek to cultivate microeconomically-oriented accumulation. (2) Regarding macro-policy processes, we must organize and systematize reform, and have experts handle the country. We must get rid of the hoards of redundant personnel, spend a lot on various "centers" and "research units," and choose a crack team of economists as a "prime ministerial economic consulting committee." Major macroeconomic policy choices should be made by a hearing or decision-making committee organized from the Standing Committee of the NPC. We must avoid the mistakes that could be made by a small number of experienced leaders.

## PROVINCIAL

### Increased Tax Revenues in Beijing

SK0102113789 Beijing BEIJING RIBAO in Chinese  
14 Jan 89 p 1

[Text] The municipality overfulfilled its various tax revenue plans in 1988 and realized 15.04 billion yuan in its tax revenues, a 910 million yuan or 6.4 percent increase over 1987. Of these tax revenues, 6.708 billion yuan of local industrial and commercial taxes were put into the state treasury, an 858 million yuan increase over the revenue plan and a 22.4 percent increase over 1987. Some 1.47 billion yuan of local state-run enterprise income taxes were put into the state treasury, a 113 million yuan increase over the revenue plan and a 21.5 percent increase over 1987. Some 940 million yuan of funds donated by local units for the construction of key energy resource and communications projects were put into the state treasury, a 342 million yuan increase over the state assignment and a 6.8 percent increase over 1987.

### Beijing Sells Apartments to Individuals

OW2401235789 Beijing XINHUA in English  
1430 GMT 24 Jan 89

[Text] Beijing, January 24 (XINHUA)—The first batch of apartment buildings to be sold on the open market in Beijing, totalling 23,000 square meters, will be sold for 1,500 yuan to 2,000 yuan per square meter next month.

This was announced at a ceremony held for the establishment of the city's real estate exchange on Monday.

House buyers are welcome to register with the real estate exchange February 15. The exchange is located to the north of Temple of Heaven Park in south Beijing.

Speaking at the ceremony, assistant mayor of Beijing, Huang Jicheng said these dwellings will be sold only to individuals, not to work units. "If any departments or enterprises are found trying to buy apartments in the name of individuals, the apartments will be confiscated by the municipal government," Huang added.

The sale of apartments is designed to promote the commercialization of housing and mobilize Beijing residents to raise funds to build their own houses, so as to help ease the housing shortage. Over the past 10 years, the city has completed a total of 30 million square meters of floor space of apartment buildings, which house more than one million residents. However there are still 400,000 families facing housing problems.

### Fujian Economic Zone Doubles Output, Profits

HK1602114389 Beijing CEI Database in English  
16 Feb 89

[Text] Fuzhou (CEI)—Mawei Economic and Technological Development Zone in Fuzhou, Fujian Province has entered into a period of all-round production. Its total

industrial output in 1988 reached 300 million yuan and the profits 46.84 million yuan, both doubling the figures in 1987. It also earned more than 44 million U.S. dollars of foreign currency, an 11-fold increase over 1987.

Last year there were 31 projects that were put into operation or under construction in the zone, with the investment totalling more than 300 million yuan.

More than 500 kinds of the city's products have been exported to more than 20 countries and regions in Europe, America and Southeast Asia.

### Guangdong Withdraws More Surplus Money in 1988

HK3101120289 Guangzhou Guangdong Provincial  
Service in Mandarin 1000 GMT 30 Jan 89

[Excerpt] According to YANGCHENG WANBAO, in an interview with reporters recently, (?Zhu Wanli), president of the People's Bank of Guangdong Province, revealed that 1988 witnessed an excellent situation in the recovery of banknotes from circulation in our province, contrary to the method of only supplying money for the past 20 odd years. In 1988 our province recalled a net amount of 250 million in issued currency. This figure means that our province withdrew 2.93 billion yuan of surplus paper money in 1988 compared to the previous year. [passage omitted]

However, (Zhu Wanli) pointed out that the problems in the economic life of our province, such as the over-extension of capital construction, a sharp increase in the consumption fund, and progressive price increases, are yet to be satisfactorily solved, so we must give adequate attention to them.

### Shareholding System in Guangzhou Reviewed

40060258b Guangzhou GUANGZHOU RIBAO  
in Chinese 9 Jan 89 p 1

[Article by reporter Zheng Guoxiang 6774 0948 1651 and correspondent Zhou Yuming 0719 3768 2494: "Let the Joint Stock Enterprises Bring in the Risk Mechanism—Retrospect and Prospect of Guangzhou's Trial Implementation of the Shareholding System"]

[Text] We just celebrated the New Year, and the Guangdong Industrial Company Ltd, Guangzhou's first enterprise to adopt the shareholding system, has issued stocks for public sale. This marks a major step in the standardization of the pilot shareholding system.

Guangzhou's pilot shareholding system was launched amid a wave of reforms. It went through a spontaneous, unregulated period, but now it is slowly being standardized.

Four years ago, in the latter part of 1984, many of Guangzhou's collective enterprises began to gather funds on their own, spontaneously, to buy one another's stocks. It started with the No 2 Light Industrial Collective Enterprise's revival of the once successful workers' shareholding method which had been abolished during the "Cultural Revolution." Meanwhile, the labor service companies set up by enterprises in the different trades to solve the many employment problems in society also began to sell stocks to the staff and workers as a way to gather operating funds, and some production enterprises also sold shares to their own workers as a way to supplement their working capital. In one year, 600 of the city's enterprises (primarily the collective enterprises) have sold stocks to raise funds; more than 100 million yuan have been gathered. This kind of spontaneous fund gathering stock activity helped to ease the fund shortage problem of many enterprises, resolve society's employment situation, and improve the living conditions of the workers.

At the end of 1985, Guangzhou spearheaded the shareholding system in the large and mid-sized state-run enterprises as a pilot project based primarily in the publicly-owned system. It started out with two groups consisting of 16 pilot enterprises. The introduction of the shareholding system in the state-run enterprises caused quite a sensation overnight. People came from all over the country to see how the system was working. Many in enterprises and many theorists lauded the experiment, but there were opponents too. The debates, however, made people realize that the shareholding system is a product of the socialized expanded production and the development of the commodity economy, that it does not necessarily have anything to do with the private ownership system, and it is a system compatible with both the socialist and the capitalist systems. Guangzhou's pilot enterprises have proved, after 3 years, that despite the lack of experience, the less-than-perfect environment, and the lack of standards in the pilot shareholding system, the economic results are obvious: The publicly-owned economic sector is much stronger, and the workers are better off.

Since the 13th Party Congress clarified that the shareholding system "may continue on a trial basis," Guangzhou's city government and other departments involved have concentrated on providing the proper conditions to guide the pilot enterprises toward standardization. The city government has issued interim measures on enterprise stocks and bonds management and has declared that the people's, the collective, and the jointly-operated enterprises may issue and trade stocks in the market. The financial department has also formulated an over-the-counter stock exchange management method and has opened a stock market to facilitate the issuance and exchange of enterprise stocks.

Some people in financial circles here feel that there is much more work to be done to standardize the pilot shareholding system. They have pointed to five areas which need

improvements: one, property rights in enterprises which have not yet been defined should be defined; two, limited-term shareholding should be changed to unlimited-term shareholding; three, the stock enterprises should replace the administrative-type leadership system with a manager (plant supervisor) responsibility system under the leadership of the board of directors which represents the stockholders; four, encourage the selected, qualified stock enterprises which so far have sold stocks only to their own staff and workers to go public with their stocks; five, enterprises should adopt fresh concepts, and instead of focusing simply on increasing the workers' benefits, they should focus more on getting the shareholders to share in the profits, losses, and risks. To let the stock enterprises bring in the risk mechanism, and let the worker-stockholders share the risk will enhance the workers' sense of responsibility, which in turn will energize enterprises.

**Guangzhou's Commercial Enterprise Reform**  
*40060258c Guangzhou GUANGZHOU RIBAO*  
*in Chinese 12 Jan 89 p 1*

[Article: "Introduce the Competitive Mechanisms—Invigorate Enterprises—Promote Market Prosperity: Progress Seen in Guangzhou's Commercial Enterprise Reform—Guangzhou's Business Administrations Committee Proposes New Measures to Bring About Thorough Reforms This Year"]

[Text] At the end of last year, Guangzhou's Business Administration Committee supplied the reporter with the following figures:

In Guangzhou, 578 large and mid-sized enterprises, or 96.2 percent of all large- and mid-sized enterprises, have adopted the contracted management responsibility system, and 64.7 percent of them have implemented the manager (plant supervisor) responsibility system. City-wide, 5,070 small enterprises, or 96.7 percent of the small enterprises, have implemented either the contract system or the leased operation system or have converted to [the privately-owned] system.

The above figures show that in 1988, Guangzhou's commercial enterprise reform has made good progress.

Enterprise reform has invigorated enterprises and brought prosperity, vitality, and basic stability to Guangzhou's market. Last year, Guangzhou bought and sold 30 percent more goods than the year before.

Officials in charge of Guangzhou's Business Administration Committee explained that the city's commercial enterprise reform has the following characteristics:

The introduction of mechanisms to promote competition and merger. First, enterprises in the garment, restaurant, tourist, grocery market, material recycling, and other businesses have piloted a program to invite competitive bids either internally or in public. At the same



time, some failing enterprises have been merged with other enterprises or auctioned off. A total of 48 small enterprises have been auctioned off so far.

The trial implementation of the shareholding system. At present, enterprises like the Nanfang Mansion Department Store, the Dongshan Department Store Building, the Nanfang Flour Mill, the Haitian Building, and the Tiaowei Foodstuffs Collective Company have set up an internal shareholding system on a trial basis. Other enterprises have piloted the stock-participation leasing method and the method of contracted management with collateral, linking worker benefits to enterprise profitability.

The promotion of a system which links enterprise wages (incentives) to enterprise economic performance to correct enterprise's internal distribution system. Statistics show that at the end of last year, 337 large and mid-sized commercial enterprises have linked wage income to economic performance as a way to effectively mobilize the workers' enthusiasm.

The promotion of lateral economic ties. Guangzhou has developed more than 560 jointly operated economic systems within the business sector, between the industrial and business sectors, between the agricultural and business sectors, and between the business and trade sectors. These have had positive effects on promoting sales and purchases.

Recently, at a conference on business affairs, the city's Business Administrations Committee brought before Guangzhou's commercial enterprises the request for more thorough reform in the new year and proposed ways to deploy and implement the reform. Among them, the Committee has emphasized bringing in mechanisms to promote competition and risk-sharing. The Committee wants to promote the risk-sharing-by-the-entire-staff contract system to make the staff share the manager's risks, and by putting the staff in the same boat with the enterprise, force them to lend a helping hand. The city's Business Administrations Committee has also emphasized the active, and steady, pursuit of the pilot shareholding system, primarily within the public ownership system. They have already formulated a program to expand the pilot project and have urged the various bureaus, agencies, holding company in the commercial system as well as the district and county business administrations committees to begin implementing the shareholding system in the large and mid-sized state-owned enterprises on a trial basis.

#### **Liaoning Tax Revenues**

SK0902101389 Shenyang LIAONING RIBAO  
in Chinese 25 Jan 89 p 1

[Summary] Liaoning Province realized 9.84 billion yuan in its industrial and commercial tax revenues in 1988, a 15.07 percent increase over 1987. During the year, the province also exposed cases of tax evasion, which involved 350 million yuan, and recovered 280 million yuan of illegal money.

#### **Improved Economic Structure 'Key' to Shanghai's Economic Development**

40060253 Shanghai JIEFANG RIBAO in Chinese  
9 Jan 89 p 5

[Article in Shanghai Economic Perspective Column by Yan Qiushi 0917 3061 1395: "Improved Economic Structure Is Key to Shanghai's Economic Development"]

[Text] Shanghai is a super-city whose primary industry is the processing industry. It is heavily dependent on outside markets for its economic development and for energy resources, raw and processed materials, and agricultural products which the people need. The old system of guarantees by the state's mandatory plans kept the lack of domestic resources and the contradictions in Shanghai's economic development hidden. Since the reform, especially because of the comprehensive urban economic reform of 1984, the scope of the state's mandatory planning has been reduced, and the shortage of domestic resources and Shanghai's problematic economic development have been exposed, and its problems have become worse by the day. On the one hand, raw and processed materials allocated by the state have been greatly reduced, and because of the lack of means of transportation, supply is grossly inadequate. On the other hand, enterprises in the system of ownership by the whole people, particularly the large and mid-sized enterprises, are still bound by the old system and are too accustomed to the product economy and have great difficulty adjusting to the kind of market competition in the commodity economy. In addition, nationwide, the economy has been growing too rapidly; there is excess demand, and the domestic market mechanisms are poorly developed—there is chaos particularly in product circulation. All these have added to Shanghai's reform and growth problems. As a result, the recent years have been one of Shanghai's most difficult economic growth periods.

To extricate itself from the raw and processed material predicament, Shanghai cannot put its hopes in the old days—the days of depending on state plans to allocate cheap raw and processed materials are gone forever. Nor can it just hope that product prices will keep on rising—this is contrary to the direction of the restructuring of the price system as a whole; it would only exacerbate an inflationary situation and hasten the restoration of the old price parities. In the long run, as the nationwide reform becomes more thorough and the inland economy begins to develop, shortage of key domestic material resources will get even worse. Faced with this grim challenge, Shanghai is left with only one way out—it must adjust and improve the economic structure promptly. It must build an economic structure which can help it compete in the market and gain a new edge in developing the economy, and by using the material resources much more efficiently, it should go the way of intensive development to gain momentum and invigorate its economy.

The 3d plenary session of the 13th Party Central Committee has made the decision to adopt firm measures to control inflation and bring down the excessive rate of economic growth. For the country as a whole, this is an important step to guarantee thorough reform and continuous, steady, and healthy development of the national economy. For Shanghai, it is the opportunity to implement more thorough reform, open up its economy even further, and speed up the process of restructuring the economy. Shanghai should seize this opportunity, and as the nation tries to manage the economic climate and restore order, it should integrate this round of national economic adjustment with its own economic stabilization and structural improvement. It should start every project which is worthwhile, eliminate every project which is non-essential, and strive to make this adjustment the turning point where Shanghai takes the initiative to develop the economy instead of dealing with its problems in a passive way. This is the time to lay a solid foundation for the prosperity and revitalization of Shanghai.

#### **Seize the Opportunity and Take the Initiative To Adjust the Industrial Structure**

Right now, and during the next few years, is the opportune time for Shanghai to step up efforts to modify the industrial structure. It should start formulating and implementing a program immediately:

(1) To optimize the industrial structure, Shanghai must reduce its investments in non-productive projects, cut back on extra-budgetary investments, and control the scope of fixed asset investments. It should squeeze out extra funds and materials to guarantee the construction of key projects and major projects in the raw and processed material industry. These projects will greatly improve Shanghai's economic performance.

(2) Shanghai should attract foreign capital and speed up the transformation of traditional industries. While continuing the effort to guide the foreign investors to invest directly in key productive projects, Shanghai should also adopt a new, all-encompassing strategy to attract foreign capital and make sure that the imported foreign funds are used to upgrade traditional industries. There are two advantages to doing this: it keeps the scale of capital construction under control and allows more foreign funds to be used on speeding up the modification of the industrial structure. An all-encompassing strategy means giving priority to attracting foreign funds, but also try to bring in foreign technology, facilities, management, market, and qualified personnel to help renovate old enterprises, improve management, raise the technological standard, improve product quality, and increase significantly the products' added value and their ability to compete in the international market.

(3) Shanghai should form a market to facilitate enterprise merger and speed up the adjustment of the mix of its asset balance. On the one hand, it should create external conditions which establish the superior and

eliminate the inferior and provide the proper environment to facilitate enterprises to adopt competitive mechanisms. On the other hand, through the merger mechanisms in the market, it can promote the modification of the industrial structure to suit new market conditions and facilitate the recombination of businesses and enterprises which have succumbed to the pressure of market competition and, in the process, eliminate some non-performing enterprises and bring the profitable enterprises up to scale and to standard and gradually set up new enterprise groups and superior industries.

#### **Promulgate a Biased Policy To Adjust the Product-Mix: Support the Production of Goods Which Generate High Tax Revenues, High Profits, and High Foreign Exchange Earnings**

(1) Enterprises and products which have a high added value, which yield high tax revenues and earn a lot of foreign exchange should be promptly lined up for analysis and key point evaluation. The municipality should gather some raw and processed materials, funds, foreign exchange and other key productive elements to support the production and development of these enterprises and promote the modification of Shanghai's product-mix.

(2) Shanghai should adjust the product-mix of the textile, light, and engineering industries to fit the market direction. The textile industry should begin to handle more thorough processing and gradually develop the entire production line—from cotton yarn, grey cloth, and print and dye to garment production. At present, Shanghai's textile export is dominated by the two kinds of yarn and two kinds of cloth. The textile industry should upgrade and modify its technology and quickly adjust the existing structure and increase significantly the added value of the export goods. In addition, Shanghai must make timely use of product information gathered in the international market, keep up with fashion design and update the fabric. It can invite some internationally known designers to come to Shanghai to help with the latest fashion design and make use of their brand names to get into the international market and redouble the value of the export goods. Shanghai should step up efforts to produce higher grade and better quality light industrial products and emphasize the development of some household electrical appliances, everyday consumption goods, and foods and drinks that are hot-sellers at home and abroad. What we look for in the products are high quality, fashion and style, proper construction, safety and reliability, small quantity, large variety, and quick turnover. The engineering industry too should adapt to the changing market and step up structural adjustments and work hard to develop some highly efficient, low energy consumption mechanical and electrical products.

(3) Shanghai should improve the export product-mix, improve foreign trade and export profitability. At present, a large proportion of Shanghai's export goods are goods which are in short-supply at home and which are costly, and therefore unprofitable, to export and earn



foreign exchange. To correct this kind of money-losing export trade, Shanghai should adhere to the principle of comparative advantage, and with the goal to win maximum advantage in the domestic and foreign markets, it should adjust the product-mix and the flow of goods. Without giving up the international market, Shanghai should make every effort to increase the production of goods which are unprofitable as exports but which are in short-supply at home and sell them in the domestic market. It can barter for materials and bring in some raw and processed materials which the municipality needs and in turn produce better products which are less costly to export, and in this way, Shanghai can increase its total export and foreign exchange earning capacity and improve export performance. The key to getting good results with this kind of comprehensive and balanced strategy lies in the proper allocation of the profit among businesses. Next year, we can experiment with several different formats: the textile enterprises (groups) can purchase some products directly from the instrument and electronics enterprises (groups) and exchange them for raw and processed materials with the inland provinces. Enterprises (groups) can buy each other's stocks and set up joint enterprises and barter for raw and processed materials with the inland provinces. Different kinds of comprehensive trade association can be set up to act as intermediaries to handle the domestic barter trade and the expanded export trade.

#### **Improve Resource Allocation and Utilize Secondary Resources**

(1) Shanghai should formulate some preferential policies to encourage the raw and processed material bases to use their material as stock and set up joint ventures with Shanghai's production enterprises. In this way, out-of-town enterprises can get a certain percentage of the profit and foreign exchange retention, and Shanghai's enterprises too will be guaranteed a steady supply of raw and processed materials.

(2) Improve allocation to make the most of the limited resources: A study of the 323 enterprises in the municipality which use more than 1,000 tons of steel each year showed that output can be increased by 300 million yuan just by improving its allocation among enterprises, without increasing the supply of steel. The utilization of raw and processed materials which are in great demand and are also in tight supply should be studied to determine the feasibility of improving the allocation of those resources. Shanghai should improve the allocation of its energy resources. Enterprises so qualified should try a new schedule whereby they open only 5 days a week, and small township enterprises can operate on a 4-day schedule. These schedules make energy use more efficient, and they can also ease the traffic situation.

(3) Continue to promote and perfect the raw materials savings incentive program: We need to set a material consumption quota for the major businesses and enterprises based on reasonable, advanced principles and

increase the profit retention percentage as incentive to save raw materials. The incentive will be based on the amount of materials used in the previous year—the difference between the previous year's consumption level and the quota will determine the percentage of the award, and the lower the level of material consumption, the higher the percentage of the award. A certain percentage of the actual value of the raw and processed saved beyond the quota can be counted as a part of an enterprise's overall cost reduction and will be rewarded accordingly.

(4) Utilize secondary resources fully and properly: at present, on the one hand, secondary resources are not being put to full use, and on the other hand, secondary resources desperately needed by some industries are lost. Based on incomplete data, at present, Shanghai currently allows approximately 100,000 tons of scrap iron and steel, 30,000 tons of paper-making material, 8,000 tons of plastics and various kinds of nonferrous metal and recyclible material go down the drain each year. Thus there is a need for management and policy measures to support the recycling of the secondary resources. In management, we need to further enact and strengthen laws and regulations to manage the important recyclable resources and prevent the substantial outflow of these resources. Policy-wise businesses which recycle scrap and used materials should be given ample support, and where warranted, we should raise the procurement price of some scrap and used materials which industries urgently need to encourage further development and use of the recyclible materials.

Shanghai's improvement of its economic structure is an arduous and complicated social project. In the process, society's economic and interest relations will be revamped. The government, therefore, should strengthen macroeconomic management, coordinate the adjustments and development, and carefully help and promote the course of changing over to the new economic track and of improving the economic structure. First, it should strengthen the macroeconomic management center and centralized the implementation of macroeconomic control. Second, centralize the necessary measures to give full play to the macroeconomic control functions of the departments in charge of planning, finance, banking, taxation, and materials.

## **FINANCE, BANKING**

### **Tax Administration Head Urges Fight Against Corruption**

*OW2202091689 Beijing XINHUA in English  
1628 GMT 21 Feb 89*

[Text] Beijing, February 21 (XINHUA)—Top Chinese taxation official urged here today the country's 500,000 tax collectors to fight corruption and make sure tax revenue is collected as scheduled.

Jin Xin, director of the State Administration of Taxation, said, "There have been cases of bribery and corruption among tax collectors."

In the first half of last year alone, 2,300 tax officials were punished for such offences, involving 5.24 million yuan, according to the director.

The ongoing national conference on taxation decided that taxation departments at all levels will make extra efforts to root out wrongdoers among the tax administration staff, especially high-ranking officials who manipulate power for personal ends.

At the same time, a system will be implemented whereby decisions on tax deduction will be made by a conference of leading officials, rather than one man as at present.

Taxable income is growing by an average of more than 10 billion yuan a year, the conference was told.

Tax revenue last year jumped by 14 percent over the figure for 1987, reaching 230 billion yuan, according to the administration.

**Effects of Tight Money, Countermeasures**  
40060246 Beijing JINGJI CANKAO in Chinese  
11 Jan 89 p 4

[Article by Wang Yukun 3769 5148 3824 and Liu Zhiqiang 0491 1807 1730 of the State Council Development Center, "Anti-Inflation" Group: "Assessment and Solutions for China's Financial Situation"]

**[Text] Assessment**

There are basically two assessments of the present financial situation. One holds that tightening measures have gone too far, and have caused a crisis situation for enterprises and banks everywhere. The other one holds that the tightening measures are structurally unbalanced, and that overall, the money supply is not seriously affected by the measures.

We believe that these two viewpoints accurately reflect two aspects of China's present financial situation. The relatively relaxed monetary policies of the first half of last year brought on last year's excessively high money supply. At the same time, the overheated economy exacerbated short term restrictions. Some industries and departments capable of rapidly developing effective supply had a credit supply problem, but overall, banks were not short on cash. The reasons are:

—The rise in production from January to October last year was the same as that during the same period of the previous year, while in the same period banks supplied 24.5 percent more loans than they had during the same period a year earlier. Credit tightening began

in September, but November investment in fixed assets rose by more than 33 percent. It is apparent that total available funds are not in short supply.

—Many non-monetary contradictions made themselves felt in the banks at the same time the tight money policies began to be implemented. The fourth quarter is when agricultural products all accumulate in warehouses and industry builds its stocks of raw materials, for which reason this quarter is a season of high circulation of money and credit. When money supply is restricted at this time, many types of contradictions influence the banks and obscure other factors which work to restrict production.

—The main internal reason for the present lack of funds among enterprises (primarily large enterprises) is the fact that, under the current economic structure in which "everyone eats around their own stove," people at the local level look first to their own local interests, going by the policy of "take care of your own house, look after your own territory." They concentrate their efforts on protecting local enterprises while leaving the problems of key enterprises and scarcity of funds for the purchase of agricultural products to the central government.

—Due to a serious decline in savings brought on by inflation, and the fact that the "save a little, lend a lot" banks didn't leave enough reserves, residents were unable to make withdrawals. Banks could not immediately call back their loans, so they stopped payment on checks, whereupon enterprises could not collect any money for sales made.

**Suggested Solutions**

Based upon this assessment of China's financial situation, we hereby suggest the following solutions to serve as reference for the departments concerned.

*Prioritize the structure of citizens' financial property, and open up the channel for converting the income of individual citizens into production funds.*

1) We must promote the commercialization and privatization of housing, and increase the proportion of mortgaged securities in the financial property of residents. The principal problem in promoting the privatization of housing is how to set interest rates and the length of maturity for housing mortgage loans. In formulating the plan, two points must be understood. First, we must encourage residents to save over a long period of time and not expect to reap large returns within a short time span. Second, we must use as the frame of reference the purchasing power of the head of household over a period of time (40 years, for example), and not use as the frame of reference someone's purchasing power at a given point in time.

2) We must avail ourselves of concrete realities, and change the retirement fund system now in effect into individual and enterprise insurance savings plans, and encourage the establishment of retirement savings and life insurance industries. We must switch from free medical care to directly purchased medical insurance, and establish unemployment insurance.

3) We must encourage efficient enterprises to raise funds directly. In order to avoid reckless issue of stocks and bonds by enterprises, and the resultant excessive investment demand, there could be an accompanying system of permits, or tax and price policies, which would limit the issuance of stocks and bonds by enterprises which do not show good macroeconomic results.

4) Banks can also issue construction bonds and adjust the interest rates on time deposits in order to influence choices made by the public concerning what type of financial property to hold, and effect a rise in the proportion of financial property with maturity periods of one-half year or longer, especially long-term bonds.

*Establish a flexible interest rate mechanism and carry out the principle of credit options.*

Interest rates on loans can basically be raised in the following ways:

1) Interest rates must be raised in order to make the price of money reflect their supply and demand. This, in conjunction with differentiated tax and price policies, will bring about an orderly transition to the new system. (This is the viewpoint held by the specialist observer team from the International Monetary Fund.)

2) Implementation of differentiated taxes entails treating fixed asset loans and operating fund loans differently, as well as treating different types of enterprises differently. As part of credit structure adjustments, and with the necessary precondition that there exist a rational credit distribution structure for individual entrepreneurs, township enterprises and collective enterprises, a thoroughgoing adjustment of interest rates must be carried out. By instituting optional credit, in which interest rates may be raised, the production of inefficient enterprises can be restricted, and the distribution of resources can be prioritized. Interest rates for poorly run enterprises, though their interest rate flexibility might be relatively insufficient, must be raised by an appropriate amount in order to either lower the amount of funds they control, or force them to suspend production or change product lines. Our management style with respect to structural adjustments to the great majority of state-run enterprises must rely primarily on closely coordinated action on the part of banks, enterprise management, and finance and tax departments, to control the size of loans.

3) Among the two aforementioned methods of operation, equal stress must be placed on economic and administrative methods. We must concretely investigate

the actual mode by which the aforementioned methods will mesh together. At the same time, we must place high priority on investigation of the strengthening of self-restraint mechanisms for banks. We must rigorously draw a clear distinction between policy-oriented loans and business-oriented loans.

*We must reform the current reserve system, and establish a system of insured payments which includes reserves and guaranty funds.*

We suggest reform of the current single reserve system. In order to more effectively restrict banks' ability to increase the amount of loans, prevent bank runs, and establish safeguards for production, we must establish a three-in-one system of insured payments which would include legally mandated reserves (which could be called first tier reserves), reserves to cover bank deposits, or extra reserves (which could be called second tier reserves), and reserves to cover bad debts. With regard to deposit reserves, the central bank could require that in addition to the legally stipulated reserves which must be handed over, banks must keep a given percentage of deposits in reserve based on the special business conditions and seasonal requirements of individual banks. We must require every bank to open a special account, into which a given percentage of net profits will be deposited each year, the percentage to be based on the composition and total sum of each bank's assets. This would be used to offset financial losses. Except in special cases, no funds deposited in any financial organ by the national government will be allowed to be drawn upon when financial losses have occurred.

#### Official Reviews Bond Issues

OW1602114389 Beijing XINHUA in English  
0706 GMT 16 Feb 89

[Text] Beijing, February 16 (XINHUA)—China has issued bonds worth 4.25 billion U.S. dollars on international capital markets in the past seven years, a Chinese official announced today.

The figure is 106 times as much as that in 1982, the first year when China issued bonds abroad in a bid to raise money for internal development.

The official, from the State Administration of Exchange Control, said the bonds were issued in Frankfurt, Hong Kong, London, Singapore, and Tokyo.

Last year alone, seven Chinese monetary institutions issued bonds worth 1.01 billion U.S. dollars, of which 80 percent are Japanese yen.

The Shanghai-based Communications bank issued its first bonds, worth 100 million U.S. dollars, in Singapore last August. A group of 23 foreign banks and securities companies served as the selling agent.

To avoid too much foreign indebtedness, the Chinese Government has announced that it will tighten control over international commercial loans. "All bonds," It says in a circular, "must be issued within the state plan."

## INDUSTRY

**Regulating Country's Industrial Growth**  
40060261a Beijing JINGJI CANKAO in Chinese  
11 Jan 89 p 1

[Article by Liu Yuping 0491 3768 1627: "To Regulate the Industrial Growth Rate, We Should Prevent Two Tendencies"]

[Text] The excessively fast growth of industrial production is a major symptom of China's currently overheated economy. Improving the economic environment to cool the overheated economic growth rate is an important task of current economic work. To effectively regulate the industrial growth rate, we should pay attention to solving the following two problems:

Prevent economic "depression." China's current situation is that the excessively fast growth of industrial production coexists and correlates with the high inflation rate. The excessively fast growth of the economy has caused demand-pull inflation, and inflation has stimulated the rapid growth of the economy. Analyses show that it is very unlikely that inflation will be suddenly reduced within the next 1 or 2 years because: 1) The remaining effect of demand-pull inflation caused by an excess money supply still exists. In the first 8 months of 1988, the amount of money in circulation reached 170 billion yuan, an increase of 40 percent over the corresponding period of the previous year, creating a rare phenomenon of net supply of money in the first half of 1988. Because of this, although the money supply has substantially tightened up, the remaining demand still exists objectively. Besides, while suppressing the aggregate demand, tightening the money supply also reduces effective supply and makes it impossible to close the gap between supply and demand. 2) Cost-push inflationary pressure is still high. Production has grown at an excessively high speed in recent years, but the economic returns of industrial production have experienced a downward trend. If there is no drastic change in economic returns (referring to the ratio of input to output), cost increases will not come to a "standstill" due to the rigidity of wage increases. Inflation caused by multiple factors cannot be resolved immediately. If the method adopted to regulate the rate of industrial growth is incorrect, it could cause a "landslide" in the economy, thus leading to an economic "depression." This is by no means an exaggeration just to scare people. Therefore, when cooling the overheated growth of industry and the economy, we must be very careful, adopt feasible and practical measures, and focus on handling the relationship between "uniformity" and the "discrimination" in our policies.

So-called "uniformity" means that budgetary and extra-budgetary enterprises, and planned and unplanned projects must be treated equally when we tighten credit and suppress the scale of investment in capital construction. In the past, we only paid attention to regulating budgetary enterprises because back then the development of state enterprises could influence the situation as a whole, and capital construction investment mainly came from the state. Now investment comes from different sources, and the current investment inflation is caused mainly by extra-budgetary funds. This requires that we make overall plans with due consideration for all concerned when we regulate the rate. If we only suppress budgetary enterprises and ignore extra-budgetary enterprises when we tighten credit and suppress investment scale, we will not only fail to cool the overheated growth rate of the industry as a whole but may also undermine the development of budgetary enterprises. At the same time, this kind of partial suppression and regulation can force capital to flow to extra-budgetary enterprises, which rely mainly on the extensive expansion of reproduction, thus wasting money and exacerbating the contradiction between the growth rate and economic returns.

On the other hand, to regulate the growth rate of industry, we must consider optimizing the industrial structure as our objective basis and allow "some discrimination" in our policies. In other words, we should regulate the growth rate of industry under the guidance of the industrial policy. While tightening total investment, we should concentrate on supporting and developing basic industries and suppress over-developed industries which have grown at a relatively fast rate. At the same time, we should direct, through the regulation of effective policies, the flow of capital toward enterprises with high economic returns. Only by so doing can we lay a solid foundation for the continuous and steady growth of the economy. Only when the industrial structure is rational can we increase macro-economic returns, eliminate the inflated growth rate, and pursue a sustained, genuine growth.

Prevent the restoration of old systems and gradually establish and perfect a macroeconomic indirect regulatory and control system. Regulating industrial growth rate is an issue of deepening the reform. Reducing administrative intervention and establishing a macroeconomic indirect regulatory and control system is a goal of the reform. Strengthening administrative intervention can weaken the reform. It is necessary for the state to interfere with the economy through planning. Since the socialist economy is a "shortage" economy, the regulatory role of the market is limited under the condition that aggregate demand and supply are imbalanced. However, the intervention of state planning is not the same as administrative intervention. Administrative intervention is very subjective and inconsistent. It can confuse enterprises, weaken their ability to withstand pressure, and affect economic development.

An overheated economy is an objective reality and a product of a special historical stage. Regulation is not an objective but an interim measure. Through regulating, we are trying to establish a restrictive mechanism for continuous and steady development of the economy. Administrative intervention indeed can give us instant results in reducing the economic growth rate, but we have to pay a great price. For instance, sorting out projects under construction has alleviated the demand problem, but as a result, a large amount of capital lies idle and a large amount of investment cannot be converted to productive forces. Such stopgap measures can only bring about a vicious cycle in which the economy will become overheated, suppressed, and extremely overheated. In recent years, China's economy has become overheated three times in 1979, 1981, and 1986. Each time, we adopted measures to alleviate immediate contradictions but failed to find a real solution to the problem, resulting in a worse case of "overheated" economy in 1988.

Therefore, we believe that we should have our eyes on the future while regulating the existing capacity. The phenomenon of an overheated economy and regulation have provided, to a certain extent, a good opportunity for us to establish a macroeconomic regulatory and control system under which economic means are used to regulate the economy. We should regulate production and circulation by establishing, perfecting, and utilizing financial, monetary, and industrial guidance policies. In accordance with the development situations and needs of different stages, we should adopt policies that are neither too tight nor too loose. In order to make the effect of the policy more widespread, we should continue to improve enterprises' operational mechanism, establish a unified financial system, standardize enterprise activities, and increase enterprises' ability to bear with and adapt to policies. Only by so doing can we fundamentally prevent drastic changes in the growth rate of the economy and effectively stop the overheating of the economy as soon as it starts. The effect of implementation of policies is affected by the time factor. Theoretically speaking, the long-term effect of regulation carried out through macroeconomic regulatory and control policies can completely make up for the short-term loss caused by the time factor.

#### **Industrial Production Expected To Grow at 12 Percent**

*OW1102134689 Beijing XINHUA in English  
0853 GMT 11 Feb 89*

[Text] Beijing, February 11 (XINHUA)—China's industrial production should grow at a rate of up to 12 percent in 1989, according to the State Information Center.

A recent analysis made by the center's economic forecasting department said that at such a growth rate, China's industry should be able to fulfill the state plan and the overheated economy should gradually cool down.

Due to the uneven development of industrial production throughout the year, the growth rate should be kept at 15.5 to 16.3 percent in the first quarter, 11.5 to 13.1 percent in the second quarter, 8.4 to 10.7 percent in the third quarter and 5.8 to 8.8 percent in the last quarter, the analysis said.

To ensure such a growth rate, the analysis said, it is necessary to continue efforts to control the volume of credit to industry and reduce the demands of the market.

Last September, the central government decided to revamp the economic environment and rectify the economic order. As a result, the money supply was tightened and working fund loans for industry decreased at a monthly rate of 0.71 percent in the fourth quarter of last year, the analysis said.

Meanwhile, the retail sales volume of all commodities dropped by 1.5 percent in the last quarter of 1988 as compared with the previous quarter.

The analysis urged the government to exercise strict control over the market, warning that should another spate of panic buying occur, industrial production may become overheated again.

#### **Shanghai To Increase Under-Supplied Electronic Products**

*40060261b Shanghai JIEFANG RIBAO in Chinese  
9 Jan 89 p 1*

[Article by Jiang Jishen 3068 3444 3947: "To Guarantee the Effective Supply of Market, Shanghai's Instrument, Meter, and Electronics Industries Decide To Increase the Production of 100 Major Undersupplied Products and Plan To Produce 880,000 Color TV's and 300,000 Color Kinescopes This Year"]

[Text] Based on market forecasts and industrial surveys, the Shanghai Municipal Bureau of Instrument, Meter, and Electronic Communications Industries has decided to adopt four effective measures in 1989 to vigorously increase the production of 100 major undersupplied products to guarantee the effective supply of market.

In 1988, the total industrial output value of this bureau reached 6.74 billion yuan, an increase of 14 percent over 1987; 93 out of 97 major products including color TV and color kinescope fulfilled production increase plans. The market investigation and forecast of 1989 shows that the market demand for instruments, meters, and electronic products is on the rise. Among them, electromagnetic stoves, microwave ovens, and vacuum cleaners have great market potential. Equipment products are looking good again along with the development of the energy, transportation, and raw material industries. After analysis, this bureau decided to focus on the development of 100 marketable undersupplied products in 1989, including 880,000 color TV's, 300,000 color kinescopes, 2.5 million black and white TVs, 1.8 million



radio-recorders, 50,000 washing machines, 7,000 video-corders, and I-type electronic unit assembly instrument and standard pressure gauges.

To guarantee the increase of production of 100 major products, this bureau also decided to adopt four effective measures: 1) Investigate the product mix. Along with concerned government organs, this bureau will study and formulate policies and measures to support major, limit general, and eliminate backward products to use limited production capacity and financial power to increase the production of major products. 2) Quicken the tempo in producing domestic products. Vigorous efforts will be made to organize people to tackle problems to insure that 95 percent of all single-unit machines and 90 percent of all machines are mass-produced at home to reduce foreign exchange expenditure and establish a production system of sound development. It is stipulated that, except for individual enterprises, no one is allowed in principle to produce old-style color TV's beginning in 1989. 3) Try in every way to collect undersupplied raw materials and foreign exchange to make up for the insufficiency of state allocation and guarantee the need of increasing the production of major products. Those enterprises which have achieved marked results in cutting foreign exchange expenditure should be awarded. 4) Introduce competitive mechanism. Those technical personnel who have made outstanding contributions should be awarded and given first consideration in the opportunity to study abroad and receive promotions and bonuses.

## SMALL-SCALE ENTERPRISES

### Shortages of Funds, Raw Materials Plague Township Enterprises

HK1502083389 Beijing CHINA DAILY in English  
15 Feb 89 p 3

[By staff reporter Li Zhuoyan]

[Text] Township enterprises in most parts of China are facing declines this year, said Tang Ping, an official from the State Statistical Bureau.

Common problems for these enterprises are the shortages of funds and raw materials, she said.

The total output value of all township enterprises is 50 per cent of the total rural output value.

In Sichuan Province, she said, where township enterprises are mainly involved in three trades—building industry and building materials, liquor-making and coal mining—the shortages of funds and raw materials have resulted in bankruptcy of a great number of the township enterprises.

Tang is with the bureau's social and economic sample survey department. Her department reported that over one-third of the distilleries have been closed and more will stop production this year.

These distilleries lack the money to buy red sorghum (a grain from which liquor is made), although the price has fallen one-third.

Those engaged in the building industry are also having a hard time. Work is rare because the government has stopped the construction of many luxurious buildings in order to reduce capital investment.

Most of the construction teams of the four counties—Luxian, Hejiang, Fushun and Anxian in southern Sichuan—have returned home from Guizhou and Hubei provinces.

In Anhui Province, the state's decision to reduce its capital investment has affected the township enterprises seriously since state loans are the main source of their development funds. Over one-third of the enterprises are expected to be closed by the end of this year.

"Overheated development with bad economic results of the province's township enterprises also accounts for the slump," Tang said.

"The total profits and tax payments of the province's township enterprises increased 24 per cent last year over 1987, but their proportion of the province's total output value decreased by 8 per cent," she said.

In Hebei Province, production of most of the township enterprises has expanded quickly in the past several years, but their economic results have decreased.

In Shanghai, township enterprises have been developing quite successfully. The average income farmers get from township enterprises is higher than the average income of the farmers in the country.

"But instead of accumulating more funds for production expansion, most of their gains have been used up as consumption funds," Tang said. "Therefore, they must find it very difficult to weather the hard times when the state reduces its loans to them."

### Problems Encountered by Township Enterprises Delineated

#### Lack of Raw Materials

40060280 Beijing JINGJI RIBAO in Chinese  
10 Jan 89 p 3

[Article by Li De 6849 1795: "Markets—Faced With Two Difficult Choices Once Again"]

[Text] Since their earliest days, township enterprises have had to contend with a scarcity of raw materials, short supply of energy, and lack of a stable outlet for their products.

It should be said that the "dual track system" has opened half a door toward the further entry of township enterprises into the market economy. This system has enabled township enterprises to advance from the stage in which they resembled "the housewife who had to make dinner out of thin air," to a new stage in which there have been opportunities and a place to go to find "rice for the pot." However, it is also true that township enterprises have suffered the most under the "dual track system," which has allowed certain people with official positions or personal connections to use ties of friendship, considerations of face, and the power to give orders, to grab land and illegal profits. In order to survive, township enterprises have found it necessary, as with Zhou Yu 0719 3842 and Huang Gai 7806 5556 of old, to submit willingly to this abuse.

Township enterprises are the most closely connected to the market economy, and it is precisely in this sometimes beneficial, sometimes harmful environment that they have begun, over the past few years, to gradually develop unique mechanisms of commerce by which to purchase, market, manage, and coordinate raw materials and products. During this time, some enterprises have maintained connections with large and medium-sized state-run enterprises; some have fielded large teams of purchasing agents; some have taken advantage of blood ties or hometown loyalties; a very small number have had the good fortune to be included in the state plan. In short, "everyone has found a spot around the table." Of course, there has also been a minority engaged in illicit practices, but it cannot be denied that these mechanisms and networks have made a noteworthy contribution to the outstanding development that has taken place among township enterprises in recent years.

Streamlining, adjustments, and the "tightened atmosphere" cannot but exacerbate township enterprises' chronic problems with material goods, raw materials, and energy. In the midst of rethinking various construction projects, the implementation of a construction permit system, the awarding of monopoly privileges for the sale of some important means of production, the closing of the cotton market, the closing of edible grain markets in areas where purchase contracts had not yet been fulfilled, and the adjustment of policies toward manufacturing enterprises, the curbs placed on "the five small" enterprises...

When tightening measures hit the scene, many township enterprises were greatly affected right away. In Zhejiang province, the granting of monopoly rights for the distribution of certain important means of production, and the restructuring and adjustments made in companies, cut off some previously existent sources for procurement of goods and materials. Economic cooperation contracts and contracts for constructing raw material bases, which had already been signed and amounted to one-sixth of the province's total township industrial output, became impossible to fulfill. A total of 6,400 small-scale cotton, yarn, and silk mills have fallen upon hard times. A

significant number of feed processing plants in Yunnan province and Xinjiang Autonomous Region which use edible grains as their raw materials have gone out of business. Insufficient raw material inventories for quite a number of township enterprises have affected production in the first quarter of this year. In some provinces and regions, signals indicating economic downturn have even begun to flash, especially in that area so intimately connected with people's lives, the effective supply of small consumer goods...

It is beyond doubt that the success of streamlining and adjustments will bring on a more healthy, normal, and standardized business climate for township enterprises. If proper methods are used and limits are not exceeded, the benefits will far outweigh the losses. On the other hand, given the inertia of the traditional system and traditional ways of thought, people will inevitably look with concern upon certain "local policies":

- "Jumping on the bandwagon" of state monopolies. After state monopoly was asserted over certain important scarce means of production, there appeared such bandwagon-jumping phenomena as "one monopolizes, many monopolize," and "one monopolizes and a hundred monopolize." This strengthened the monopoly of various departments, and intensified the isolation of local units. Such problems as (?financial policies directed toward very narrow local interests, and rigid profit margins maintained by government agencies which enjoy monopolies), have once again "come to light." Some businesses have gone monopoly while disguised as something else, and others have returned to the (?unified wasteland of the state plan).
- Boundaries are not clear. Some government agencies and work units which originally carried out coordinating activities with township enterprises or supported them, now fear being accused of abusing their power. In some places the boundary between collusion and coordination is not clear. Raw materials which should go to township enterprises simply never make it there, and products which should go out, never make it out. Purchasing agents are between a rock and a hard place, and enterprise factory managers have endless worries.
- Some people consider only size in assessing the relative merits of an enterprise. In carrying out leadership duties, they do not consider an enterprise's efficiency, but merely decide which enterprises they will support on the basis of the system of ownership employed, its location (in a city or a village), or even its size. On certain points they can be quite stubborn. Policies toward industry should not return to administrative control. Take the example of some enterprises engaged in the manufacture of agricultural sideline products. They are capable of providing effective supply to the marketplace, and they use primarily local resources, but some local governments have mindlessly pulled the rug out from under them, and they now face possible closure.



The new market regulatory mechanisms have not been speedily established, and lack the necessary tools. Parts of the old market order are under attack because it still needs to "get rid of muddy water and store fresh water" (i.e.—rid itself of old, unhealthy practices, and establish new, healthy ones). During this transition period, there is no choice but to resort to certain administrative measures, which have inevitably been accompanied by some negative side effects. Maybe this is the market that now confronts township enterprises with "two difficult choices." The original intention of streamlining and reorganization was to put the industrial base on a more rational footing and improve effective supply, and not (?to make the level of production and socialist supply fluctuate wildly). During this period, quite a number will have to make some sort of sacrifice, but others more suited to market competition will gain a new life. On the one hand, it will strengthen the ability of some enterprises to deal with market competition and risk. On the other hand, it will create new conditions which will strengthen the competitive posture of township enterprises as a whole. It is apparent that the only choice is to stride toward deepening of the reforms, and not to move toward the other extreme—a retreat toward the (?unified stagnation) of before.

#### Limitations of Current System

40060280 Beijing JINGJI RIBAO in Chinese  
10 Jan 89 p 3

[Article by Du Ying 2629 7751: "Enterprises—Urgent Need To Strengthen the System"]

[Text] The sudden emergence of township enterprises in recent years has not been a natural extension of the traditional type of industrialization, but has been the necessary result of the reforms' breaking away from the restraints of the traditional system in cities and towns. Once the long restrained impulse toward development of non-agricultural industries was released, it was only natural that "what was held back so long, must burst forth rapidly." Therefore, it was inevitable that a period of chaotic development would occur.

After a time of precipitous development, development trends indicate that township enterprises are no longer in the period of rapid development and have passed on to a stage of stable growth.

The excessively rapid growth of township enterprises during their formative period occurred because they were being allowed to fully carry out their "corrective function" (i.e.—correct previous imbalances in the nation's economic structure). Various conflicting interests were submerged in the huge benefits obtained, but as progress continued on to a new stage, conflicts inherent in the "chaotic growth stage," such as sectoral interests versus the interests of the economy as a whole, and short-term versus long-term interests, began to emerge, and form a serious obstacle to further development. These are seen most clearly in the following areas:

—Ownership of, and responsibility for, property in township enterprises is unclear. As production increases, internal strife sometimes occurs and makes it absolutely impossible to increase the size of the business.

—Enterprise equity limits are unclear, which greatly increases the risks to creditors. This in turn harms the credit standing of township enterprises.

—Township enterprises are established in order to achieve community service goals, such as increasing the income of the immediate community and providing a maximum number of employment opportunities. This has led to a decrease in the size of enterprises, and has caused them to be scattered widely. From the microeconomic standpoint, this has led to an excessively competitive situation, and has lowered the ability of enterprises to make a profit. From the macroeconomic standpoint, this can easily increase the severity of swings between boom and bust, and lower the efficiency of resource allocation.

—The immaturity of the land market has caused the loss of land rents, which then become part of labor costs. In recent years, average wages in township enterprises have steadily risen at a rate faster than the growth of per capita profit, which has increased the opportunity cost of agricultural labor. Furthermore, because the relative price structure of the national economy has not yet been put on a rational footing, great numbers of township enterprises have entered the manufacturing sector, which was too large to begin with. This has exacerbated previously existing imbalances in the national economy.

—In township enterprises' market environment, business costs are rising. The "dual track price system" invites speculation and illicit trade practices. The effects of rural society blood ties spread from the confines of enterprises to market relationships and reduce the transparency of the market, making it difficult to establish norms for open, unified market behavior.

Most of the aforementioned problems are the result of contradictions, conflicts, and friction between the new system and the old. The nature of this problem dictates that it is wrong to simply shunt peasants toward non-agricultural industries. Similarly, though there is still much support for the way of thought which calls for us to "open up policies and go full steam ahead on development of township enterprises," it is harmful to continue to be guided by this thinking in our analyses and actions.

It was against this background that the objectives for strengthening the township enterprise system were proposed. By "strengthening the township enterprise system" we mean the formation and development of new regulations, new organizations and a new system based

upon the fundamental norms of a modern commodity economy, in order to lay a solid organizational and systemic foundation for the next period of township enterprise development.

Of course, to strengthen the township enterprise system implies standardization and systematization. The final goal of standardization and systematization is to move from policy adjustments to legal adjustments. However, standardization and systematization are not in conflict with diversity. What we need is diversity based on standardization and systematization.

To strengthen the township enterprise also implies innovation. Clear equity relationships, developed market organization and complete commercial laws and regulations are prerequisite conditions if the market mechanism is to be taken advantage of to the fullest extent; but it is precisely these organizational and systemic resources that cannot be provided by China's historical heritage. Therefore, the strengthening of the township enterprise system is a process of innovation.

#### **Tight Credit**

40060280 Beijing JINGJI RIBAO in Chinese  
10 Jan 89 p 3

[Article by Nan Bei 0589 0554: "Capital—Fundraising Conditions Under a Tight Credit Regime"]

[Text] Township enterprises have been "starved" for funds since last autumn's clampdown on loan amounts and the money supply, but now they are coming up with new fundraising methods to survive the crunch.

There are presently dozens of fundraising methods used to collect the excess cash in the hands of peasants: bringing funds to the factory, using investment to spur labor, factory savings plans, property risk mortgages, wage earner savings plans, shareholding systems... It should be noted that, although these various fundraising methods and techniques existed earlier, the tightness of funds has effected a change in the overall economic situation. Without any way to get loans from banks or other lending sources, the only way for township enterprises to survive was to turn their eyes downward and inward, in order to find new fund sources and use funds on hand more efficiently.

There are more than 17 million township enterprises at present. The number of secondary cooperative enterprises alone exceeds 1.5 million. It is estimated that about 80 percent of township enterprises depend to a greater or lesser extent on bank loans. Roughly 20 percent of township enterprises depend entirely on loans to run their businesses. Among the entire nation's township enterprises, operating fund loans account for approximately 50 percent of total operating funds, and

for an even higher percentage of fixed capital. The participation of township enterprises in the intense hunt for funds clearly reflects several things:

—Of the nation's 350 billion yuan in savings and 200 billion yuan in circulation, at least 60 percent is in rural villages. Fundraising activities for investment in production will attract a substantial proportion of the money that formerly went to housing construction and flooded the consumer goods market. This money will be diverted to investment in production, and the pressure it puts on markets will thus be greatly relieved.

—A new stage of development is approaching for township enterprises which will feature clear equity relationships, and various shareholding systems will be widely practiced. Shareholding systems have already become the primary fundraising method for many township enterprises. Although in some cases they suffer from lack of standardization, their effect on the future of township enterprises will be much deeper than that of any other fundraising method.

—The interests of townships will become more and more entwined with those of the great majority of peasants. The greatest advantage of township enterprises is that their interests are most intimately connected with those of China's 800 million peasants. A wide-ranging fundraising movement will extend the contacts of township enterprises, make their profits more direct, distribute risks more evenly, and render them much hardier survivors.

With the relatively fierce onslaught of this fundraising movement, some experts have already taken note of another aspect of the situation:

Firstly, if the growth rate this year for township enterprises is assumed to be 15 percent, that would call for at least 25 billion yuan in operating funds. The most optimistic estimates at present could only satisfy a small part of that sum, which means a shortage of as much as 20 billion yuan. A "grey" market would inevitably appear to supply the fund requirements of township enterprises. Outside the official financial system, it would constitute a separate entity among the people. Secondly, it will directly affect agricultural banks and credit societies, and also have a subtle effect upon the effort to reduce the supply of money in circulation.

There are no concrete statistics on the total amount of funds now controlled by the nation's more than 17 million township enterprises, nor is it clear how many fundraising methods exist, but the rising tide of fundraising enables us to state one thing without doubt: the township enterprises born amidst the market mechanism have learned to depend on themselves to survive difficulties and crises. Responsive and adaptable township enterprises need further tests in the marketplace to be tempered.

**More Rural Enterprises Seek Joint Operation**  
*OW2302001889 Beijing XINHUA Domestic Service  
in Chinese 1230 GMT 20 Feb 89*

[Local Broadcast News Service; Article: "The Road of Rural Enterprises: Unite to Weather the Storm"]

[Text] Beijing, 19 Feb (XINHUA)—After several years of trials and hardships, a group of enterprises that can compete in the world has emerged among China's rural enterprises. However, the majority of rural enterprises are still in a disadvantageous position. In order to break out of this and win a place in the highly competitive market, rural enterprises must put more efforts into the various forms of joint operation and cooperation. As the renowned entrepreneur Lu Guanqiu, director of the Hangzhou Universal Joint Factory, said, to weather storms, overcome the current credit squeeze, and raw materials shortage as well as many other unfavorable factors, the "small sampan" of rural enterprises must join hands with the "10,000-tonne liner" of state enterprises.

According to incomplete statistics, there are currently some 14,000 joint ventures set up by rural and state enterprises. Some localities, mainly rural enterprises of the suburbs in big cities, have fostered very close ties with state enterprises, sharing their good and bad times together. During the past year, Beijing's Changping County grasped the opportunities offered by the municipality's large industries when they transferred and dispersed many of their projects and products to rural enterprises, forming nearly 100 associated enterprises. Rural and state enterprises can make use of each others' advantage when they cooperate in production, providing support and processing. Rural enterprises can rely on the advantage of state enterprises regarding facilities and technology and shift to the production of medium and high-quality products, thereby improving their capability to compete in the market. Some declining rural enterprises have received a new lease on life after joining up with state enterprises.

Joint operation between rural enterprises of the same trade or spanning into other sectors has clearly improved their capability to compete. Enterprise groups formed by rural enterprises have emerged nationwide in light, textile, electromechanical, foodstuffs, shoemaking, and building industries. Zhejiang Province's Tongxiang Qingshi Shoemaking Company, the largest among them, has 21 factories nationwide. Jilin Province's Rural Enterprise Brewery Group has 12 breweries. Twelve of the 15 towns and townships in Shandong Province's Wucheng County are engaged in the production of glass fiber reinforced plastics, with a current annual production of more than 7,000 metric tonnes and making up over 10 percent of the total national production of glass fiber reinforced plastics. The county is the nation's largest producer of the product.

Joint operation with foreign enterprises enables rural enterprises to make use of foreign facilities, technology, and capital as well as utilize the advantage provided by

local human resources to carry out production and processing. It helps make up the deficiencies in rural enterprises, and enable them to learn the advanced management practice and production techniques of foreign enterprises. With the help of the Center for Medium and Small Enterprises' Cooperation with Foreign Countries of China, Jiangsu Province's Sunan Prefecture [Sunan Diqu 5685 0589 0966 0575] has signed 18 cooperative agreements with the FRG's Bavaria State. Looking at the operation in progress, these cooperation projects have all yielded higher economic returns.

## FOREIGN TRADE, INVESTMENT

**Japan Encourages Country To Revamp, 'Bring Order' to Trade Environment**  
*40060226b Shanghai SHIJIE JINGJI DAOBAO  
in Chinese 12 Jan 88 p 10*

[Article: "China Should Straighten Out Its Foreign Trade Environment and Revamp Its Foreign Trade Methods, Suggests Japan International Trade Promotion Association Special Affairs Director Nakata Yoshitake"]

[Text] *China must bring order into its foreign trade, otherwise achievements made in reform will be destroyed. If China's goods lose their position in Japanese and international markets, it will take more than a decade to revive confidence.*

Mr Nakata Yoshitake, director of Special Affairs of the Japan International Trade Promotion Association recently wrote an article titled, "To Support the Decisions of the 3d plenum, a Straightening Out of the Foreign Trade Environment and Revamping of Foreign Trade Methods Is Suggested."

The article pointed out that the 3d plenum of the 13th CPC Central Committee made a decision about reform and construction for 1989 and 1990, the key points of which are "improving the economic environment and rectifying the economic order, and a full deepening of reform." In view of the problems that have arisen in recent years in Sino-Japanese trade, there is a feeling of urgency about the necessity for this decision, and about the urgency of carrying it out.

Tremendous changes have taken place as a result of 10 years of reform and enlivening of China's foreign trade work. Very great accomplishments have been made in Sino-Japanese trade, particularly in solving the balanced development of trade between the two countries. Thanks to joint Japanese and Chinese efforts, beneficial results have been achieved.

However, numerous problems have also appeared in China's foreign trade work such as slapdash handling of water shipments, many different agencies involved in foreign dealings, the buying up of goods in great demand from everywhere in the "raw silk war," and the "Chinese chestnut war," which has damaged the reputation of

name brand goods that has been carefully fostered for many years, a decline in quality, failure to abide by contracts, and caring more about money than good faith, which have caused much ill will. These things have damaged the confidence in China of its international friends and lowered China's trustworthiness abroad.

China's internal raising of prices and buying up of goods in great demand from everywhere has damaged the quality of export goods, making fulfillment of contracts impossible. An actual example is the efforts of special companies in Japan and China to develop the sale of chestnuts to more than 30,000 tons per year. Chinese chestnuts have become a traditional commodity for several decades, with 100 sellers and buyers specializing in them. More than 10 years of technical exchange and cooperation to improve chestnut quality has improved their reputation and increased output. In addition, large amounts of manpower, materials, and capital were expended in Japan in 1987 to conduct a "Chinese chestnut publicity week," which expanded sales. In 1988, however, Hebei Province was able to fulfill only 47 percent of its chestnut contracts with Japan, defaulting on the supply of 57 percent. Furthermore, Hebei made rush procurement of chestnuts from elsewhere, and indiscriminately mixed together large and small chestnuts, thereby lowering quality. Reportedly, this was done because, first, there was a crop failure in 1988; and second, branch companies mandated by the main company raised prices in a resort to pre-emptive buying. They fished in troubled waters, pre-emptively buying supplies outside of plan. However, these actions were not in keeping with the centralized procurement price decided upon at the May Chinese chestnut conference, and they also resulted in Hebei branch companies being unable to fulfill quantities called for in international trade contracts signed at the Chinese chestnut talks held in Japan in July 1988. This caused very great difficulties for the branch companies in Hebei Province. Even more serious was the especially large number of stale chestnuts and spoiled chestnuts, the quality and taste of which was extremely low, thereby lowering the good reputation of all Chinese chestnuts. Goods could not be delivered to satisfy the regular contract, and goods were selected indiscriminately for irregular shipments outside plan.

A second example was the Japan Trading Agency's importation of bamboo baskets from Guangdong during the last half of 1988. After taking delivery of the baskets, it was found that most of them were blackened from mildew, making them useless to customers. The mildew had resulted from failure to dry the bamboo used in their construction. The buyer requested that the baskets be exchanged, but the seller would not agree.

A third example occurred in November 1988 when pine mushrooms were imported from Yunnan Province. After importation and sale to customer's homes, bits of lead were found in them when cut with a vegetable knife. The lead had been put into them. Pine mushrooms are a fresh delicacy priced by weight. Japan imports them

from China (Yunnan, Jilin, and Heilongjiang provinces), Korea, and Canada, and the quality of the Chinese ones compares favorably with those grown in Japan. Lead had been put into them since they were sold by weight. After this fact was broadcast on Japanese television, confidence in Chinese goods was greatly lowered.

On the basis of the foregoing facts, one might say that China's foreign trade system should be straightened out; otherwise, achievements made in reform will be destroyed. If Chinese products lose their standing in Japanese and international markets, it will take more than 10 years to revive confidence, and this will create a vicious cycle.

**Foreign Trade Regulation, Regional Disparities**  
40060255 Beijing CAIMAO JINGJI [FINANCE AND  
TRADE ECONOMICS] in Chinese  
No 11, 20 Nov 88 pp 58-59

[Article by Pan Enqi 3382 1869 3823 of the Chinese Academy of Social Sciences, Finance and Trade Department: "On Foreign Trade Regulatory Mechanism and Its Application"]

[Text] The issue of foreign trade regulatory mechanisms has thus far been a weak link in the theory of foreign trade reform. Foreign trade in a commodity economy is restrained by demand, which is to say that it relies on market demand to drive the development of foreign trade. The traditional foreign trade system is restrained by resources, which is to say that foreign trade is developed in accordance with the state's allocation of resources. During the shift from one system to the other, reform of foreign trade regulatory (balancing) mechanisms has stumbled upon the problem of "the complexity of transition to a market economy." The logic of market function is greatly different from the reality. The logic of a commodity economy is simple, but the actual workings of foreign trade are much more complex than the abstract theory. Complex economic phenomena and a multitude of changing variables have turned the reform of foreign trade regulatory mechanisms into a difficult problem. The difficulty arises from the issue of how to adapt foreign trade regulatory mechanisms to the present irrational industrial structure in China.

Exports, for example, create a larger market for a country's products and stimulate a rise in demand. From this standpoint, exports are a factor which increases demand, while production is a matter of supplying commodities. In order for market functions to be fully carried out, supply must be greater than demand. Liberal export policies depend on a domestic supply which exceeds domestic demand. Restrictive export policies are carried out when domestic supply is either smaller than or equal to domestic demand. Regulatory strategies differ between these two situations. Primary regulatory strategies for liberal export policies are indirect administrative intervention (refunds of export duties, bonuses, and subsidies) and market regulatory mechanisms (such

self-regulating tendencies as the law of supply and demand, and the law of value). The primary regulatory strategy under restrictive export policies is direct administrative control (such as permits, compulsory plans, etc.). Since the beginning of the reforms, export theorists have engaged in discussion about the relationship between export planning and the market, but have yet to arrive at any conclusions which are satisfactory to the departments actually involved in export-related activities. The positive and negative experiences encountered in the regulation of exports since the beginning of reforms show that the reality of supply and demand must be the key to our search for the optimum mix of direct administrative control, indirect administrative regulation, and market self-regulatory mechanisms. This is just one point which we have come to understand through the development and reform of export regulatory mechanisms.

Although academic opinion in China is divided concerning the question of whether "reform requires a relatively liberal environment," it is a matter of consensus that "the export economy requires a relatively liberal domestic environment." In practice, it is precisely supply and demand that have played a major role in the export economy. In developed countries, economic stagnation has been a matter of weak demand, so they have gone all out to increase exports, and thus stimulate demand. China is a developing nation, and its economy suffers from insufficient supply. In addition, we are developing our export economy in a country with a vast domestic consumer market. In the mix of export commodities, there is a high proportion of agricultural sideline products and manufactured goods which are related to the clothing and food needs of our 1 billion citizens (roughly one-half over a long period of time). No matter what the advantages of a given export product, if domestic supply is insufficient, export at the expense of the supply of primary goods will be limited. Also, domestic demand for raw material exports will rise as China's economy develops. We cannot sacrifice domestic economic development and harm the standard of living of the Chinese people in order to increase exports. Therefore, development of the export economy has run into restrictions. Our only choice is to develop export under conditions of short supply, and the overall export economy must operate under restrictive policies. A major long-term problem in the export sector has arisen from the fact that products appropriate for export have been in short supply, which has caused a dilemma concerning domestic consumption versus export. Since reforms began, we have encountered a problem of "a gap between the theory and practice of the commodity economy." For several years, because the necessary regulation of such lateral commerce as interprovincial trade of export primary goods, has been lacking, some foreign trade departments have bid up prices in their competition for low-overhead, foreign exchange-earning products suitable for export. Because the primary goods are in limited supply, while purchasers have increased in number, the price of these goods has far exceeded their actual value, and a

corresponding rise in costs in terms of foreign exchange has occurred. The state has acted to control export losses by requiring that costs in terms of foreign exchange be lowered. Exporting firms did not have the funds to adapt well, and the development of export trade has suffered as a result. This illustrates the fact that it is not practical to suggest primary reliance upon market mechanisms to regulate export trade's domestic purchasing link. The state's assumption of a heavy fiscal burden has been the primary insurance of the continuous growth of China's export trade. The economic regulatory levers for China's export trade have functioned with the strong backing of the state's financial power. In the present state of development, the state's use of economic regulatory measures, such as subsidies, to stimulate exports is no longer achieving the desired results. With the state lacking sufficient fiscal strength, the effectiveness of economic regulatory levers for export trade is limited, and cannot be relied upon as the primary regulatory measures. When productive forces are underdeveloped and goods fall far short of fully satisfying social wants, direct administrative intervention still plays an important role. Since China reverted to the use of export permits, most commodities falling under this type of regulation went from chaos to order; their export prices rose and volume increased. Export trade is closely tied to the international scene. The indispensable nature of direct governmental intervention in the economic sphere has been proven by the experience of many countries. China, after all, is a developing nation whose per capita income ranks lower than 100th in the world. At the present juncture, the primary regulatory mechanism for China's foreign trade can only be direct governmental intervention (though its relative importance is declining); and indirect administrative intervention and market self-regulatory mechanisms can play an auxiliary role (though their relative importance is increasing). It is very practical at this point in time to emphasize that the reform of export trade regulatory mechanisms is a "gradual process." This reform ought to be carried out in step with the steady progress of foreign trade and the entire economy.

From a regional perspective, different areas show different levels of economic development and have different export capabilities. A single issue has very different practical implications for different areas of the country. In economically developed coastal areas where primary goods are plentiful, the conditions of export trade do not necessarily call for restrictive policies. Guangdong Province, in order to find a balance between macroeconomic control and microeconomic stimulation, while developing commodity production, bravely adopted a price policy for export purchases which would "allow prices to fluctuate with the market." For quite a number of commodities, initial successes have already been obtained in correcting the problem of distorted and irrational domestic and export prices. They have achieved uniform prices, and superior quality and prices. They have both expanded production and increased foreign exchange earnings. However, they have



not exceed the average national rate of increase for costs associated with the earning of foreign exchange. Primary goods from outside the province do not constitute a large proportion of Guangdong's total exports, and indicate normal lateral exchange. In comparison with the rest of the country, the state of Guangdong's export economy calls for liberal policies. "Liberal here, restrictive there" is a special characteristic of China's regionally varied export economy.

If the total supply of one type of commodity were to exceed total domestic demand, then the commodity economy would be able to carry out its proper function, and a liberal export policy would be in order for the commodity in question. If annual output of men's wrist watches were to exceed annual domestic sales, the price of domestically manufactured wrist watches would drop sharply on the domestic market, and a liberal export policy for men's wrist watches would be appropriate. On the other hand, if a certain commodity's supply continually failed to meet demand for an extended period of time, and the domestic market required protection, then export purchases for that item would have to be regulated by a reasonable compulsory plan in order to assure proper export control. Export of this commodity would have to be governed by a restrictive policy. Domestic demand for agricultural sideline products, for example, is very high; furthermore, productivity for agricultural labor is very low, and the disparity between supply and demand is very large. Export of these products is tightly restricted. For a long time, export of agricultural sideline products has depended on reduction of domestic demand, and its volume has been very low; thus, it is governed by a restrictive export policy. Taking supply and demand as the key element in the search for the optimum combination of export regulatory measures is not only appropriate under the present circumstances, but is also very practical. As for the overall structure of regulatory mechanisms, the primary method is direct administrative control, while indirect administrative regulation and market self-regulatory mechanisms are auxiliary methods. These methods reflect the relatively backward condition of China's forces of production. "Liberal here, restrictive there" reflects China's current uneven state of development. This is a notable characteristic of China's present export trade system. Clarification of the characteristics of the current foreign trade conditions will prove beneficial toward deepening of the reforms.

**Investment Enterprise Focuses on Infrastructure,  
Export-Led Projects**

HK2202093189 Hong Kong SOUTH CHINA  
MORNING POST (BUSINESS POST)  
in English 22 Feb 89 p 4

[By Cheung Lai-kuen]

[Text] China International Trust and Investment Corp [CITIC], one of the largest state-owned investment enterprises in China, is to focus its strength on infrastructural and export-led production projects under the government's restructuring of its enterprises.

CITIC vice-chairman Xu Zhaolong, who is also the corporation's president, said it had some freedom under the "cage" granted by the central government.

He explained that CITIC could still make its own decisions on general projects, but needed the approval from Beijing on major investments.

For example, Hong Kong's third cross-harbour tunnel and the new airport projects would need approval from Beijing if CITIC decided to participate.

CITIC would make a decision regarding its participation in these projects after evaluating whether they were necessary for Hong Kong and their potential profitability.

CITIC's investment attitude in the mainland had changed from capital construction projects to infrastructural facilities and production projects with export potential, Mr Xu said.

He said these projects included a power station in Jiangsu province with Hong Kong partner Li Ka-shing.

Mr Xu said CITIC expected to continue to raise funds overseas in order to fund its projects, despite Beijing's attempts to control foreign borrowing by its enterprises.

Mr Xu quoted Chinese leaders who said China's policy on reforms and opening-up would remain unchanged.

He noted that some foreign investors might worry about whether or not China would change its current open policies on reform after the government decided to tighten its macro-economic control and regulations.

"My personal experience tells me that reform and opening-up are in conformity with the wishes of the people and in line with the trend of historic development," he said.

"A reversal of the current policy is impossible."

**Shandong Peninsula Adjusts Usage of Foreign  
Investment**

40060288b Beijing GUOJI SHANGBAO in Chinese  
2 Feb 89 p 1

[Article by Wu Lichuan 0702 4539 0278: "Shandong Peninsula Economic Development Zone Achieves Breakthrough in Use of Foreign Exchange; 1988 Total Business Volume of \$580 Million"]

[Text] The Shandong Peninsula Open Economic Zone has earnestly practiced the reform program put forward in the 3d plenum of the 13th NPC Central Committee, and implemented the coastal economic development strategy. The amount of foreign exchange utilized in 1988 doubled. There was a new breakthrough in the

"three forms of import processing and compensation trade," there was new development of exports, and the outward-oriented economy reached a new level.

The Shandong Peninsula Open Economic Zone includes the six cities of Qingdao, Yantai, Weihai, Weifang, Liubo, and Rizhao, and the 44 counties within their municipal jurisdiction. In the last year, 252 projects in the Peninsula Open Zone received approval to use foreign exchange. The total investment was \$580 million, and foreign firms invested \$298 million, which represents an increase of 135 percent over the previous year. Some 132 foreign invested enterprises were approved. The total investment in these projects was \$427 million, of which \$201 million were invested by foreign firms. These figures were 5.8 times higher than those of the previous year.

The Peninsula Open Economic Zone's use of foreign exchange exhibited some characteristics that attracted much attention. One characteristic is that foreign exchange was used to establish planned development. Each city set up a "project data bank" and an "information bank," whereby coordination was improved and the planned nature of foreign exchange usage was strengthened. A second characteristic is that the sources of foreign exchange became more varied. From Hong Kong and Japan, they gradually came to include over 20 countries and regions in Southeast Asia, Europe, North America, and Oceania. A third characteristic is that the pattern of investment has become more and more rational. Some 95 percent of investment in 1988 went to either production or export enterprises that earn foreign exchange. The proportion of investments in technology-intensive enterprises was higher than in previous years. The industries which saw the most investment were textiles, light manufacturing, electronics and resource development, and agricultural sideline products. A fourth characteristic is that the investment climate was improved. The principle of a single window open to the outside and a single dragon providing service was adhered to. Efficiency was raised. For some projects, contracts were signed, approval was obtained, production started, and export sales began, all within a single year. For example, only 28 days were required to complete negotiations and obtain approval for Weifang's Yuxin Leather Products Company, Ltd. A fifth characteristic is that a good number of large projects were realized, whereby the number of major enterprises earning foreign currency was raised. For example, the investment in Qingdao's Number Three Beer Brewery, Ltd., was \$40 million. A total of \$30 million was invested in Yantai district's polyamide fiber plant. A sixth characteristic is that a new breakthrough was achieved in the "three forms of import and compensation trade." Some 106 projects of this type were approved in 1988, with a total investment of \$50.53 million. This represents an 84.8 percent increase over 1987.

**Shanghai Posts Record Export Earnings**  
40060251b Beijing GUOJI SHANGBAO  
in Chinese 10 Jan 89 p 1

[Article by reporters Chen Xueyan 7115 1331 3601 and Yao Ximin 1202 6932 2404: "Shanghai Posts Record Export Earnings; 1988 Exports Expected To Exceed \$4.6 Billion"]

[Text] Exports from the port of Shanghai will exceed \$4.6 billion, surpassing the targets set by the state plan and the municipality. This amounts to a 10 percent increase over the previous year and represents an all-time record. Commitments for export earnings, foreign exchange turned over to the central government, and economic return also will be met in full.

Shen Beizhang [3088 5926 4545], chairman of the Shanghai Foreign Economic Relations and Trade Commission, estimated that in 1988 Shanghai attracted a total of \$550 million in various types of foreign capital, a 30 percent increase over the previous year. This includes \$320 million in direct foreign investment in the approximately 210 newly sanctioned foreign-invested enterprises [FIEs], increases over the previous year of 30 percent and 175 percent, respectively. This direct foreign investment in Shanghai was concentrated in the "three mores;" namely, more investment in industrial projects, this year 65 percent vice 35 percent in 1987; more prefecture- and county-run FIEs, where approximately one-half of the 210 FIEs will run at the prefecture and county levels; more projects devoted to producing goods in China for export.

Shen Beizhang pointed out that in 1988 there was significant progress in Shanghai's foreign contracted projects and labor services cooperation. Seventy new contracts were signed worth \$110 million. Of these, newly-effected contracts for foreign contracted projects surpassed \$100 million, which was a 1.3-fold increase over the previous year. Nine new overseas joint ventures were sanctioned. Thirty-plus projects undertaken in Shanghai this year received international assistance to the tune of more than \$50 million.

As for 1989 activity, Shen urged the following: First, actively pursue producing enterprise contracted exports and a foreign trade export agent system. Shanghai has decided the textile industry will be the first to implement the agent system in a comprehensive manner, and other industries also must actively move in this direction. Producing enterprises will be allowed to enter the arena of international competition. Second, continue to expand foreign economic cooperation and actively utilize foreign capital. In 1989, Shanghai must influence the direction of overseas investment in a realistic manner and in accordance with the requirements of industrial policy, with emphasis on continued development of technologically advanced "two ends abroad" manufacturing projects. We cannot crowd into Shanghai more



FIEs devoted to export supplies and channels. Third, do a good job of administering and consolidating in the realm of foreign economic relations and trade.

### **Tianjin Earns Increased Foreign Currency From Overseas Labor**

*OW1902180589 Beijing XINHUA in English  
1504 GMT 19 Feb 89*

[Text] Tianjin, February 19 (XINHUA)—Twenty-five Chinese building workers from this north China city have returned home upon completion of a one-year contract with Federal Germany.

They were the first group of workers sent by Tianjin City to a Western European country.

Last year the city sent a total of 802 laborers abroad, an increase of 30 percent over the previous year, according to the municipal Corporation for International Technical Cooperation.

The labor contracts the company signed last year involved 13.53 million U.S. dollars, 1.36 times more than that of the previous year.

Also last year, the contracts of sending seaman abroad involved over four million U.S. dollars, showing an increase of 63.6 percent.

Meanwhile, progress was made in sending fishermen abroad. Newly signed contracts involved 4.3 million U.S. dollars and 500 people.

Laborers from the trades of building, textile, machinery-building, light industry as well as cooking have been sent to more than 10 countries and regions including Singapore, Britain, Japan, the United States and Hong Kong.

## **ECONOMIC ZONES**

### **Taiwan Businesses Invest in Xiamen Economic Zone**

*OW1402074489 Beijing XINHUA in English  
0258 GMT 14 Feb 89*

[Text] Xiamen, February 14 (XINHUA)—Taiwan businessmen are investing in 100 projects in the Xiamen special economic zone, 40 of which have already been put into operation, according to an official of the local government here today.

The official said he expected a new wave of enthusiasm by Taiwan businessmen to invest in the zone this year. Xiamen is in Fujian Province which lies across the strait from Taiwan.

The local government will step up port, airfield and digital telecommunications facilities in preparation for new investment.

The zone will allocate special areas for industrial, scientific and technical, and tourism investment, the official said.

He also said that efforts will be made to study Taiwan laws to protect the interests of Taiwan businesses.

### **Plans Drawn To Attract Foreign Investment to Hainan**

*40060264c Beijing RENMIN RIBAO OVERSEAS  
EDITION in Chinese 16 Jan 89 p 3*

[Article by correspondent Lu Zisu 5012 5261 3936: "New Path Taken in Building of Hainan SEZ; Use of Advantages in Capital and Labor for Comprehensive Development of Region's Economy; Yangpu To Be Key in Building of Island-Wide Development Zones and Foreign Exchange-Earning Agriculture"]

[Text] What new path will building of the Hainan SEZ take as Hainan enters its second year as a province? Provincial Governor Liang Xiang said on this occasion that a course should be followed that makes fullest use of Hainan's advantages in ample sources of capital and cheap labor, with large scale introduction of foreign capital, and contracting of tracts for comprehensive development of the region's economy. Specifically, the Yangpu Development Zone should be the focal point for the building of the island's various economic development zones and large foreign exchange-earning agricultural bases that can diffuse to and energize the development of Hainan's national economy.

In 1988, Hainan Province won the first round in development of the SEZ. The gross output value of agriculture for the province increased 11.2 percent, and foreign exchange earnings from exports increased 1.2 percent. Total retail sales of social commodities increased 22 percent, and government financial revenues increased 40 percent. As of 31 December 1988, Hainan had approved investment by 2,710 enterprises from elsewhere in China, including 915 joint investment enterprises and 1,795 independent investment enterprises. Contract plan investment and registered capital totaled more than 5.9 billion yuan, and foreign exchange totaled \$72.51 million. In addition, the province has issued approval certificates for a total of 446 "three kinds of partially or wholly foreign-owned enterprises," contracts providing for an investment totaling 749.64 million yuan and \$377.25 million of foreign exchange, including an investment outside Hainan of 62 percent of the renminbi and 86 percent of the foreign exchange. No doubt, this is the turning of a brand new page in history for Hainan, which has been cut off and impoverished for several decades.

When the entire country is engaged in restructuring of the economic order and cleaning up the economic environment, what will the Hainan SEZ be doing in 1989? Provincial Governor Liang Xiang said it will be exploring new roads. After a year of exploring the development of large tracts and mounting large projects, Hainan has

found a new road. In 1989, it wants to work hard at attracting large foreign financial groups to Hainan to operate large projects and key engineering works. Emphasis is to be placed on the development of major construction projects, including the already decided upon airfield, highways, ports, and communications facilities. During the first quarter of 1989, ground was broken and construction begun in the Yangpu Development Zone. Comprehensive development is to get underway in 1989 to make the Yangpu Development Zone a model for tract development and system innovation that attracts foreign investment in Hainan. Yangpu should become an advanced area that energizes the Basuo, Haikou, Sanya, and Qinglan development zones, and development of the whole province.

In discussing how to further improve the soft investment environment in order to insure implementation of Hainan's preferential policies and work plans for 1989, Liang Xiang said that first, reliance must be placed on the rule of law, and second the system of "small government and large society" has to be consolidated and improved. During 1989, Hainan will continue to promulgate various laws that will have a major effect on the Hainan market economy system and economic construction, including the "Company Law," the "Foreign Capital Investment Law," the "Land Leasing and Transfer Law," and the "Environmental Protection Law."

#### **Hainan Opens 10 Local Ports**

HK1602113389 Beijing CEI Database in English  
16 Feb 89

[Text] Haikou (CEI)—Hainan province opened 10 local ports recently to meet the needs of the export-oriented economy.

They are the new ports in Haikou City, Qinglan, Baimajing, Puqian, Tanmen, the inner port in Sanya City, Xinying, Changhua, Lingtou and Qukou.

#### **Shenzhen Economic Reform Measures**

40060262a Guangzhou NANFANG RIBAO in Chinese  
13 Jan 89 p 1

[Article by Li Tongbo 2621 6639 3134: "Cut Back on Basic Construction Investment and Adjust Industrial Structure; the Shenzhen Economy Is in a Bullish State"]

[Text] In each of the last 3 years, annual basic construction investment has been held to around 2 billion yuan, but last year total industrial output value, overall labor productivity and foreign exchange earnings from exports all increased 100 percent or more over the same period for 1986. Products were sold to over 30 nations and regions.

The resolve of the Shenzhen Special Economic Zone [SEZ] to cut back on fixed asset investment, adjust its industrial structure, develop an export-oriented economy and intensify enterprise reforms has given some real stamina to production, gradually brought on bullishness in its economic development and achieved fairly good economic results.

According to statistics, in each of the last 3 years the Shenzhen SEZ has held its basic construction investment to around 2 billion yuan but, comparing 1988 with 1986, total industrial output value went up from 3.4 billion yuan to 8.5 billion yuan, overall labor productivity went up from 32,700 yuan to 65,000 yuan and foreign exchange earnings from exports went up from \$670 million to \$1.7 billion. In the last 3 years the Shenzhen SEZ has seen over 850 different varieties of its products break into international markets and Shenzhen's products have been sold to over 30 nations and regions.

In early spring of 1986 the Shenzhen municipal party committee and the municipal government decided to cut back on basic construction investment, shift key work items from the "going great guns at foundation building" of the past to "stressing production, raising levels and seeking results" and develop the export-oriented economy. In order to achieve these things, the city as a whole has cut 2.57 billion yuan from basic construction investment and has halted construction on 51 tall buildings of 18 stories or higher. At that time, some people just couldn't understand this and were worried that because of this the "Shenzhen Speed" would be lost. The way leading comrades in Shenzhen explained this to the people, cutting back on basic construction investment was not a negative act at all nor was it a loss of the "Shenzhen Speed," but rather it was being done to correct the direction in which funds were invested, adjust the industrial structure, allow limited funds to be put to use in critical places, provide more coordinated and healthy development of economic construction and make the "Shenzhen Speed" operate on a more reliable foundation. In light of this guiding thought, 1986 saw Shenzhen either halt or slow down construction on 804 projects by comprehensively setting things in order and differentiating between minor and major, suspendable and urgent. At the same time, the 700-plus million yuan demanded by the various departments for investment plans was shrunk down to 250 million yuan and the proportion of financial department expenditures taken up by infrastructure investment went from 54 percent last year to 31 percent this year.

With these kinds of cutbacks, many projects have been discontinued and the heated construction climate of the past appears to have become chillier. However, funds are relatively concentrated and manpower and material resources are not all that hard to come by. All kinds of contradictions have been eased because of this and the economy as a whole has developed in a coordinated, stable direction. In the last 3 years, Shenzhen has applied its limited funds toward developing such complementary

infrastructural projects as export-oriented industry, transportation, telecommunications, and energy resources, and this has ensured construction of key projects. For example, such projects as Plant B of the Shajiao Electronics Factory, the Fufa Glass Factory, the railroad viaduct and the Wutongshan tunnel are all proceeding according to schedule. Certain projects with extra high construction standards are being adjusted after assessment of the actual situations. At the same time, enterprises with foreign investment, and in particular those that are export-oriented, are receiving preferential arrangements and are being assured of supplies of such things as electricity. Because funds are relatively concentrated, there is a good possibility of increasing the circulating fund by 300 million yuan to help those enterprises with advanced technological facilities and fairly good export potential that are temporarily undergoing difficult times to get through their crises. In sum, basic construction has been cut back, but production stamina has not been weakened. In 1986 the overall industrial output value of the Shenzhen SEZ increased 33.3 percent beyond that of the year before, exports earned 33.9 percent more foreign exchange and foreign exchange revenues and expenditures were balanced. We even had a slight surplus, financial departments increased their income and we managed to pay off some of our debts.

**Rapidly Rising Land Prices in Shenzhen**  
40060262b Shenzhen SHENZHEN TEQU BAO  
in Chinese 6 Jan 89 p 7

[Article by Lu Ren 6424 0086: "Advantages and Disadvantages From the Rapidly Rising Land Prices in the Shenzhen SEZ"]

[Text] Land prices in Shenzhen are on the rise. The record auction price for land is now 4,715 yuan per square meter and this simply leaves people speechless!

The rocketing rise in Shenzhen land prices makes some people happy and leaves others worried. Those happy with the sky high prices feel that the land prices are a reflection of the level of economic development in the special economic zone [SEZ]. Not only do high prices increase government revenues but also price competition brings more rational and effective use of land resources. In fact, this is an argument that focuses on minor matters and overlooks major ones. High land prices cannot only seriously affect enterprise development but also can affect the enthusiasm of foreign business investment. Remembering back to the last land auction, foreign businesses pulled out of the bidding after the prices got up to 8 million yuan but state-run enterprises generously pushed the bidding up to 20 million yuan. Well, in any case, it is state money. It appears that under the current condition where market mechanisms and the enterprise system are still not so sound, we would do well to give serious thought to how land is auctioned off and how prices are fixed. On this point, even developed capitalists nations don't let themselves be completely manipulated by the "invisible hand"

when it comes to land which is a major resources that is tied to the national economy and the people's livelihood. Rather, they adopt all sorts of economic and at times even administrative means to guide and intervene in land markets and suppress land prices. In Tokyo, Japan, every inch of land is priceless. The Japanese government is paying close attention to this and is being forced to consider spending a huge sum of money to move the capital. Even the Hong Kong government which claims to pursue a non-interventionist policy intervenes in the real estate market in many ways such as by formulating the "10-year residence plan" and building large numbers of low rent housing units which suppresses commodity housing prices.

Shenzhen has a scarcity of land resources. There are approximately 110 square kilometers of land suitable for building and of this over 50 square kilometers have already been developed. As the economy of the SEZ develops, a steady increase in demand for land and a gradual rise in land prices is normal. The problem is that now the rise in Shenzhen land prices has gone overboard. At the first land auction at the end of last year residential use land went for 200 yuan per square meter and now at a recent auction land went for 4,715 yuan per square meter. Within 1 year prices increased 2,350 percent! There is no way we can call this normal.

Such an enormous rise in the price of land in Shenzhen that greatly exceeds the speed of economic growth cannot correctly reflect the level of economic development in the Shenzhen SEZ. I feel that, to a large degree, the high priced purchases we are seeing are a reflection of speculative motives and a hunger for investment on the part of enterprises in the real estate market.

Such high prices for land in Shenzhen directly affect the investment environment in the SEZ. The construction fund for the Shenzhen SEZ primarily comes from introduced foreign funds. Shenzhen's strength to attract foreign funds comes above all from its cheap labor force and low land prices. If land prices are artificially driven too high, then many foreign businesses are certain to shy away from Shenzhen. Currently many investors are moving to other Asian-Pacific nations and regions and this can't help but concern us. Also, as land prices in Shenzhen rise, the burden on the enterprises grows heavier. In order to pay the cost of employee housing, enterprises have increased their investments and this has led to higher product costs and weakened competitive strength of product exports. At the same time, explosive rises in land prices will increase the difficulties in turning residences into commodities.

High land prices in Shenzhen are causing people from all sectors to worry. Not only is it critical that we suppress land prices, eliminate overheating in the real estate market and promote the healthy and coordinated development of the SEZ economy, but also these are things that are in urgent demand by the various lines of

business. The author feels that we must act quickly to adopt effective measures that allow us to control and guide the scope of rises in land prices. Specifically we can:

1. Rectify orders and inhibit demand. Apparently there are now over 30 companies throughout the city engaged in real estate business and among them there are some that by no means possess the conditions for developing land and engaging in the real estate business. They are specialists in land speculation and from this they reap staggering profits and disrupt the real estate market in the SEZ. In the last 2 years the population in Shenzhen has exploded and this has created formidable pressure in the real estate business. Thus, while we are faced with the necessity of ordering and rectifying the construction of non-productive items, at the same time we must rectify and order the real estate business and the temporary population. In particular, we should put restrictions on those engaging in intermediary real estate business. And we should give priority treatment to the land and building use of those export-oriented production enterprises so as to speed up the development of the SEZ's export-oriented economy.

2. Strengthen investigation and control over the sources of funds for land purchases by local enterprises and enterprises with links to the hinterland. Land and housing management departments should investigate such matters as where enterprises that engage in land speculation are getting their funds to purchase land and buildings, how they are using the land and what is the nature of the enterprise. This will help prevent speculation in building land, instances of businesses having enough money to buy land but then lacking funds to build on it and the development of covert real estate activity.

3. Impose price limits on real estate in stages. Government land and building management departments should fix reasonable land price caps by stages based on the level of development in Shenzhen's economy. After the prices in the land market become basically stable, the government can impose price limits on building property that are higher than average profits and can publicly announce the price limits in the newspapers. Industry and commerce, tax and auditing departments among others should strengthen their administration and supervision over the management of real estate development companies. In this way not only can supervision over the people be strengthened, but also the people's confidence in the real estate market can be assured, the psychological pressures on the people stemming from rising social costs can be lessened and the ordering and rectification of the price environment in the SEZ would be benefitted.

## POPULATION

### Minister Warns of 'Legal Punishment' for Family-Planning Offenders

OW2402025489 Beijing XINHUA in English  
0754 GMT 23 Feb 89

[Text] Beijing, February 23 (XINHUA)—Peng Peiyun, minister in charge of the state's family planning commission, warned Tuesday that legal punishment will be meted out to those family planning offenders, CHINA DAILY reported today.

Addressing at a week-long meeting in Beijing of more than 100 family planning commission directors and population experts from all over the country, Peng said that the situation had become crucial and a law was being drafted which would go before the state council as soon as possible.

Only just over half of all couples are actually following the country's family planning policy and of the remainder, two fifths have two babies and a further two fifths have three, she said.

In 1987, 2.5 million children, 10 percent of all births, were born to couples who had not yet reached the legal marriage ages of 22 for men and 20 for women.

So far, Peng said, some 16 provinces, autonomous regions and the municipality of Tianjin have worked out and issued local family planning regulations.

She asked that all regions make their own regulations and ensure that they are carried out to the letter.

Organizations at all levels should make check-ups so that problems could be revealed and new regulations made if necessary.

Some experts had earlier forecast that the population would reach the 1.1 billion mark even earlier sometime next month.

### Statistics Show Increase of 15.41 Million in 1988

OW2002092889 Beijing XINHUA Domestic Service  
in Chinese 1255 GMT 19 Feb 89

[Local Broadcast News Service]

[Text] Beijing, 19 Feb (XINHUA)—According to the State Statistics Bureau, by the end of last year, China's population reached 1,096,140,000, an increase of 15.41 million as compared to the end of the previous year. Persons in economic circles have once again appealed to the public not to lower its guard against such a drastic population increase.

The increase of 15.41 million people a year has brought an enormous pressure to bear on the economy and society. This means that at the rate of 200 kg of grain per capita, more than 3 billion km of additional grain will be consumed each year; and if the per capita space of housing is 4 square meters, additional housing of more than 60 million square meters will have to be built, which would be equal to 30 percent of the new housing projects built in the cities and towns last year. According to estimates by experts, the annual population growth at this rate will consume about 20 percent of the increased national income. And the statistics compiled by the departments concerned show that China's population

has been growing at the annual rate of 15 million for 3 years in a row since 1986. This undoubtedly means that caution is advised for the economy and society.

**'Floating' Population Causes Problems for Cities**  
*OW2702074989 Beijing XINHUA in English*  
0925 GMT 26 Feb 89

[Text] Beijing, February 26 (XINHUA)—Fifty million Chinese, or one in every 20 people are on the move, bringing prosperity as well as problems to Chinese cities, today's PEOPLE'S DAILY reported.

The big "floating force" tends to continue to expand, the paper quoted Public Security Ministry sources as saying.

One-fifth of the 50 million floating people are found in the country's 23 big cities, with 1.83 million in Shanghai, 1.15 million in Beijing and 1.1 million in Guangzhou.

Two-thirds of these people engage in various economic activities involving construction, services and trade and they usually stay in the city for at least three months.

These people have helped prosper the city service industry and economy. Now city residents find it easier to have meals outside their homes, to have their articles repaired and to engage household maids, for the people from outside the city have taken up these vacancies.

However, they have also brought along problems. They add great pressure on the already strained traffic, water and electricity supplies, posts and telecommunication, supplies of grain, vegetable and non-staple food in the city.

They have increased social disorder. Statistics by the Beijing Railway Station show that 70 percent of the criminals found nearby are from outside the city.

## TRANSPORTATION

**East China Railway Construction Investment To Rise**  
*OW1402061589 Beijing XINHUA in English*  
0254 GMT 14 Feb 89

[Text] Hangzhou, February 14 (XINHUA)—China will invest 397 million yuan (about 100 million U.S. dollars) this year in the construction of railways in Zhejiang Province, east China, according to the provincial government office here today.

The figure is a 40 percent rise over the 1988 figure.

The railway lines to be built will connect the province's Changxing City with the neighboring province of Anhui's Xuancheng. The lines between Hangzhou, the capital of Zhejiang, and Shanghai and neighboring Jiangxi Province will be double-tracked.

**Shenzhen's Investment in Harbor Construction Pays Off**

*40060259b Beijing ZHONGGUO JIAOTONG BAO*  
in Chinese 19 Jan 89 p 1

[Article by reporter Li Qingfei 2621 7230 7378: "Shenzhen's 8-Year Investment in Harbor Construction Pays Off—63 Berths Have Been Built, Creating a Cargo Handling Capacity in Excess of 8 Million Tons Per Year"]

[Text] This reporter has learned from relevant sources that Shenzhen's harbor construction which has been funded entirely by enterprises themselves have been a success. After 8 years, 63 berths at the piers have been built entirely with funds gathered by enterprises. The waterfront docks extend 4,653 meters, and 7 of the berths are in the over-ten-thousand ton class. The harbor can handle 8 million tons of cargo each year. It will play an important part in the economic development of the special economic zone (SEZ).

Ever since the formation of the Shenzhen SEZ, the city government has adopted the unified planning, multiple-source fund gathering method and has tried to develop the coastal resources in a systematic way. After 8 years of hard work, the city has completed in succession the Shekou, Chiwan, Dongtongtou, Shayuyong, Yantian, and Mawan harbors. The 500 million yuan spent on construction had been raised either in enterprises, through loans, or by bringing in foreign funds.

In gathering funds to construct the harbors, Shenzhen's city government has put special emphasis on making the investments effective. It has managed to continue to gather funds to keep parts of the construction going and complete other parts to put them to work to recoup the investment. The economic performance has been outstanding. So far, all the completed docks which have gone into services are generating profit. The China Nanshan Development Company Ltd. gathered more than 200 million yuan in 6 years to develop the Chiwan Harbor and built 15 berths. To date, it has recouped more than 90 percent of its investment. To be able to recoup the investment in such a short time is rare in China's harbor construction history. The Shekou Harbor area will be able to handle nearly 3 million tons of cargoes this year. The year's profit is expected to top 12 million yuan, doubling last year's profit.

## PRC MEDIA ON FOREIGN ECONOMIES

**Lessons From East Europe on Controlling Inflation**

*40060224 Beijing SHIJIE JINGJI [WORLD ECONOMY] in Chinese No 11, 10 Nov 88 pp 76-80*

[Article by Liu Kaiming 0491 7030 6900: "Price Reform Without Enterprise Reform Bound To Fail"]

[Text] In the course of price reform, East European nations have experienced some successes and learned some lessons that others would do well to ponder.



Generally, no one single East European nation has overcome the price-reform barrier. The difficulties and risks they have encountered in trying to overcome this barrier are exactly what China is experiencing right now in its price reform. Thus it cannot but benefit us to analyze price reform in East Europe and draw practical conclusions from it.

### **I. Price Reform Is Not the Key to Overall Economic Reform**

As economic reform got under way across the board and gained depth since the mid-1960's, countries in East Europe were increasingly aware that not only did the price issue constitute a problem that cannot be side-stepped, but it is pivotal to the entire economic reform. In recent years, in particular, many countries have come round to this point of view and acted accordingly. Hungarian economists believe that "price reform holds the key to economic structural reform overall." An article in the Polish monthly *NOWE DROGI* [NEW ROADS] notes, "We cannot be tardy in creating conditions for the second stage of reform. Without overhauling the price structure, we cannot introduce the necessary changes in the wage structure. The question now is whether we need to take highly risky actions."<sup>1</sup> Clearly, Poland believes that the price issue is most critical to the second stage of reform. If it does not zero in on prices, the second stage of economic reform cannot be carried into effect. And precisely because price reform is so critical, it should be prepared to "take major risks."

Proceeding from the above understanding, Poland, Hungary, Yugoslavia, and other East European nations successively formulated comprehensive price reform plans. Poland, in particular, made price reform the first step in the second stage of its economic reform. Other countries too have grappled with price reform as the engine that drives the entire economic reform. In Poland, the price-reform plan as drawn up by the strategic planners of the second stage of economic reform is a "plan of action for a one-shot thorough reform." Basically, "an overall balance should be achieved in the consumer goods market. Subsidies should be cut back drastically so that the prices of a variety of commodities and services will offset production costs and circulation charges. Prices of consumer goods and capital goods are to rise 58 to 60 percent and 40 percent, respectively. Meanwhile, wages should be increased to completely neutralize the consequences of price increases. All this is to be accomplished by the end of 1988." This is the basic guiding philosophy behind this plan: Price reform must not be allowed to drag. Since it is critical to overall economic reform, the latter cannot gain depth without a breakthrough in price reform.

There can be no price reform without taking big risks. Hungary too has drawn up a comprehensive and thorough price-reform plan that shows a commitment to risk-taking. The substance of the plan is as follows. Beginning 31 March 1988, price control would be lifted across the board with the exception of essential goods

and some public utilities. The tax system would be restructured completely. State subsidies would be reduced. Efforts would be made to establish a rational production structure and consumption structure. An overall balance is to be achieved in the consumer goods market. Price reform would be the engine that drives other reforms. An expert on East Europe from the World Bank has pointed out that the Hungarian government is trying its best to let the market set prices. Only the prices of foodstuff, water, electricity, and other utilities are to be fixed by the government. He called this kind of reform "comprehensive, thorough reform" that surmounted the difficulty without causing trouble for the future. The market economy of Yugoslavia had always been dominated by free prices. After repeated demands from the IMF, Yugoslavia went further by deregulating all prices. Leaving aside for the time being the tenability of the assumption that price reform is the key to successful economic reform, let us analyze the feasibility of price-reform plans drawn up on that assumption.

First of all, not only is it impossible to straighten out prices amid inflation, but inflation itself fuels further price increases. Some Chinese economists believe that inflation, once set in motion, will only accelerate and that few countries in the world postponed price reform until after inflation has subsided. Judging from the price-decontrol experience of some East European nations in recent years, it seems that we can also suggest that countries that managed to succeed in price reform before eliminating inflation or bringing it under control are few and far between. On the contrary, the more prices are decontrolled, the more rampant the inflation. A typical example is Yugoslavia, where inflation and price decontrol spurred each other on. In the 1960's, the annual inflation rate in Yugoslavia averaged below 7 percent. Since the 1970's, owing to the world energy crisis, prices rose across the board in the country, resulting in double-digit inflation for the first time. The inflation rate reached 18.6, 25.9, and 26.3 percent, respectively, in 1973, 1974, and 1975. In 1976, the government moved to halt price increases and inflation dropped to 9.4 percent. From late 1970's to early 1980's, as Yugoslavia decontrolled prices extensively, inflation also got out of hand like a runaway horse. In 1983, inflation hit 58.4 percent, the highest in Europe. In 1985, Yugoslavia went further by deregulating the prices of a string of foods and consumer goods, and inflation subsequently shot up 78 percent. In recent years, inflation escalated to three digits. Some people in the economic community in China argue that provided all prices are decontrolled, indirect regulatory mechanisms centered on the market will come into place, all relations will be balanced, and prices will not only stabilize but actually fall. Thus price reform, it is said, must come first and cannot be sidestepped. Yugoslavia has what must be considered the typical market economy among socialist countries, with essentially indirect market mechanisms. But as price reform went under way across the board, the

desirable outcomes mentioned above did not materialize. The conclusion is obvious. As far as Yugoslavia is concerned, price reform does not hold the key to economic reform as a whole. The situation in Poland and Hungary is more or less the same, the only difference being one of extent. Before prices were fully decontrolled, inflation in Hungary was always under 10 percent. As prices were gradually decontrolled in recent years, inflation increased sharply. The projected rate for 1988 is 15 percent. In Poland, inflation hit 26 or 27 percent in 1987 and was expected to range between 42 and 44 percent in 1988.

Second, when prices and wages increase in turns, the entire economy suffers. All East European nations paid a good deal of attention to this problem in the course of price reform and took a series of measures to prevent an economic vicious circle. In the early days of price reform, the price index was strictly held below the wage increase index, something which practice has shown to be effective in controlling price increases resulting from price adjustment. Another basic measure taken by Yugoslavia and Poland is to "link wages to profitability." Prime Minister Bronko Mikulic of Yugoslavia said, "There can be no compromise on the basic goal of controlling inflation by linking wages to profitability." In addition, Hungary absorbed public funds (savings, stocks, and bonds) and acted to check demand explosion. As World Bank experts on East Europe pointed out, "Hungary has done a better job here. There is an active private economy. Actions were taken to channel the money in people's hands into production, thus lessening the pressure on durable consumer goods, especially, the residential market." As price reform intensified and broadened, particularly during the transition from price adjustment to price decontrol, the above measures became largely ineffective. It should be pointed out here that the linking of wages to profitability depends solely on whether or not enterprises can compete in the market as independent commodity producers. To put it differently, to really prevent wages and prices from soaring in turns and stop prices from getting out of control, we must first reform the enterprise management system. Yet the East European nations have made little progress in this regard with the result that as price decontrol was instituted across the board, prices and inflation resembled two wild horses running out of control. In the 1960's, single-digit inflation was the norm in East Europe. From the late 1970's to the 1980's, it was replaced by double-digit inflation. In the past 2 or 3 years, prices have been doubling. Within the CEMA, Poland and Hungary had the highest rates of inflation, at 26 and 8.6 percent, respectively, and they are expected to climb to 45 and 15 percent, respectively, in 1988. This state of affairs was mainly caused by the following. First, they went ahead with price decontrol at a time of accelerating inflation. Inevitably the two fueled each other. Second, the governments have failed to keep a tight lid on the money supply, leading to a loss of control on prices. In 1970, Yugoslavia's money supply was 38 billion dinar (about \$3.04 billion), up from 23.5 billion

dinar (about \$1.88 billion) in December 1967, an increase of 62 percent in 2 years and 10 months. It was not until 1983 that the country acted to tighten the money supply. Third, little headway has been made in enterprise reform. Enterprises are being run inefficiently and remain dependent on the state for their survival. In Hungary, for instance, two-thirds of the enterprises are dependent on state subsidies. Fourth, an explosion in aggregate demand. Janko Obocki, a member of Yugoslavia's Federal Executive Council, said, "Last year personal incomes rose faster than productivity, thus seriously threatening economic accumulation. In 1986 real wages increased 10.1 percent, while productivity rose only 0.9 percent."

Then there are social repercussions, which not only affect the intensification of price reform, but will certainly slow down and prolong the entire process of economic and political reform. Reformers must take into account the tolerance of the state, enterprises, and, in particular, the masses. This has been a top concern among policymakers in East Europe as they drew up the reform strategy. Strong measures have been taken. A foremost consideration is to stabilize the prices of basic daily consumer goods. In 1982, Romania decided to raise retail prices by 35 percent, a figure arrived at by using the incomes of the lowest paid as the base. The Hungarian price-decontrol plan of March 1988 excluded "food and public utilities like water and electricity (the prices of which will be set by the government)." A second important measure is to guarantee price subsidies to the masses following price decontrol or adjustment. After Romania raised retail prices by 35 percent in 1982, per capita expenditures rose 140 leus per month. At the same time, per capita subsidies were 187 lei per month. During the same year, Czechoslovakia raised the prices of meat, poultry, fish, and fish products by an average of 27 percent. Per capita expenditures increased 40 korunas per month, but the government subsidized low-income earners and children to the tune of 40 to 200 korunas per month. In 1979, Hungary raised food prices 20 percent on the average. Meanwhile, state subsidies for each worker amounted to 180 forints per month, equivalent to 6 percent of his wages. The third measure is raising wages by a greater margin than price increases. From 1968 through 1978, wages in Hungary rose faster than prices. From 1976 to 1980, prices rose only 9 percent in Romania, but real wages went up 29 percent.

But as prices were deregulated across the board and inflation continued unabated, the burden on the state became increasingly onerous as subsidies of all descriptions multiplied. On the one hand, the state had to subsidize the growing number of money-losing enterprises. On the other hand, it had to compensate citizens for the losses resulting from price increases. An article "Food Subsidy Policy Should be Mindful of Efficiency," which appeared in Issue 22, 1988, of the Polish weekly ECONOMIC LIFE, noted that the scope of subsidy was over-extended. In 1986, food subsidies amounted to a whopping 700 billion to 1,000 billion zlotys (\$1:316

zlotys) and accounted for 19.4 percent of the total government expenditures in the budget. Agricultural subsidies stood at 554 billion zlotys, 36.7 percent of the net output value of agriculture. Thus the state had reached a stage where it could no longer afford to consider public tolerance. In other words, it could not afford to compensate for the full effects of price hikes. Yet they have gone too far down the road of price reform to turn back or apply the brakes. In 1987-88, therefore, Hungary and Poland successively put forward the slogan of risk-taking: "Only by taking chances can we save ourselves from the crisis." Meanwhile, the governments had no choice but to pass on part of their burden to society. In the 1980's, for example, Yugoslavia and Hungary cut workers' wages in successive years, in effect letting prices increase faster than wages. The Polish press pointed out that "the burden of price reform has now fallen on the people. If we can overcome the barrier of price reform by taking chances and putting up with the temporary pain, the people will support it." Judging from the above analysis, however, the key to reform in East Europe today is not price reform, but checking inflation, adjusting the economic structure, changing the development strategy, so on and so forth. A wave of workers' strikes hit Yugoslavia in the first half of this year, leaving the government with no choice but to freeze prices. In Poland, the second stage of reform plan has not been approved by the people at the polls. At the end of March this year, there was panic buying. The public withdrew large sums from their savings accounts in the banks to purchase houses or build swimming pools. All this suggests social tolerance has reached its limits. Social repercussions of this nature have affected the furthering of price reform, making it impossible to proceed with political and economic reform as a whole.

## II. Taking Big Risks and Putting Up With "Temporary Pain"

Price reform has indeed bedeviled East European countries for a long time. Countries which have largely adhered to planned prices, such as Romania, Czechoslovakia, and the Democratic Republic of Germany, have held firmly to the centralized management of prices throughout to ensure price stability. In these countries, price distortions have gotten so serious that reform is the only way out. On the other hand, Yugoslavia, where market prices dominate, and Hungary and Poland, which have a mixture of prices, believed that price reform holds the key to success in the entire economic reform and that the time had come to bite the bullet. Today, they have bitten the bullet several times but success still eludes them. In Poland, for instance, the one-time price-reform plan has not been approved, the result of both social intolerance and a combination of social and economic circumstances. In Yugoslavia, prices are sometimes deregulated, sometimes frozen. These twists and turns have spelled disaster for the economy. Clearly, price reform cannot be sidestepped. This much we can conclude from the reform practice of these East European nations. Yet another conclusion is

that price reform cannot be achieved within a short time or in one "fell swoop." This is also an important issue being explored in the theoretical communities in East Europe. Price reform cannot be effected in a short period of time because the problems that influence price reform cannot be resolved quickly.

First, "reform is a process. Quick breakthroughs are impossible." Like economic reform as a whole, price reform touches upon all kinds of complex relationships, so no "quick breakthrough is possible" in the short run. According to Zdzislaw Sadowski, a Polish economist, "reform is a process... These days the word 'breakthrough' is being used more and more frequently. Personally I don't expect a quick breakthrough, but a process."<sup>2</sup> Another Polish economist, Tan Bobuluofusiji [0982 0590 1580 5012 1133 2448 1015] said, "Economic reform is a long-term process. We should not rush things." Some Eastern European economists who push for quick price reform tend to exaggerate the make-or-break importance of price reform. A number of economists in Poland think otherwise. Rebutting the one-shot reform plan, they said, "Overall balance cannot be restored by price-budgeting means alone. There are even those who assert categorically that raising wages as a means of offsetting price increases will not work. The first plan overemphasized limiting subsidies, leading to substantial increases in the prices of food staples, electricity charges, and rents."

Second, inflation cannot be eliminated in the short run. As mentioned above, inflation worsened as price decontrol was furthered in some East European nations. The time has now come to put price reform on hold and devote their energies completely to controlling inflation. In other words, price reform cannot go on if drastic measures are not taken to eliminate inflation. Some economists on the mainland believe that once it is set in motion, inflation will accelerate and become uncontrollable. What this proves is that eliminating inflation is a long-drawn-out process, not that it cannot be eliminated. The fact that inflation is only a few percentage points in some Western nations bears testimony to that. To control inflation, Yugoslavia and Hungary at one point applied the brakes on the economy abruptly, with the result that inflation became "stagflation." Negative economic growth was registered and the gap between supply and demand widened further, which in turn exacerbated inflation. This also shows that inflation involves the money supply, economic structure, development strategy, and various other issues. It needs to be adjusted over a period of time and no "quick breakthrough is possible."

Third, as an essential component of price reform, controlling the money supply cannot be achieved in a short time either. Professor (?Matelin), a Soviet economist, said, "If the money supply is not properly handled, we cannot solve any economic problem. Only when there is a strong currency backed up by commodity reserves and only when prices are coming down steadily would the

worker believe firmly that he is working for his country and himself." Moreover, the money supply has a direct influence on price reform. Yugoslavia, for instance, deregulated both the money supply and prices. The result was that prices got out of hand. It responded by tightening the money supply, cutting back on spending, and freezing prices, measures intended to cool the economy quickly. The inevitable outcome is a decline in output and slow economic growth, which only make inflation worse and casts a shadow over economic growth. Clearly, it is too much to expect the money supply problem to be resolved within a short time. The only solution is to rein in the money supply, cut back on investment, and ensure production over a period of time, in other words, by trimming demand and encouraging supply at the same time.

### III. The Key Is To Cure Inflation Permanently

To sum up, the most critical thing in economic reform in East Europe at the moment is not putting up with temporary pain and overcoming the price-reform barrier, but curbing inflation at the source, adjusting the economic structure and development strategy, and intensifying economic reform all round, particularly enterprise reform. To put it differently, the fundamental issue is profitability. If profitability improves, the price-reform barrier will come down. What needs to be emphasized here is that price reform is not irrelevant. It is indeed a hurdle that economic reform overall cannot sidestep. Yet as long as the variety of issues surrounding price reform are not resolved, the hurdle cannot be overcome.

First, the top priority is to eliminate inflation. One school of thought in China argues that we should keep a tight lid on the money supply and decontrol prices as if that is the magic solution to the price-reform problem. East Europe, however, has tried everything: "easing the money supply and controlling prices," "easing the money supply and decontrolling prices," and "tightening the money supply and decontrolling prices." None has worked. The result is worsening inflation and more and more distorted prices. Both inflation and prices got out of control, like two wild horses. Yet a third scenario that has appeared was inflation giving way to stagflation. The approach of "tightening the money supply and deregulating prices" may be suited to China, but it would not work in East Europe. This is because its purpose is to ease or slow down inflation in order to facilitate price reform. In East Europe, however, inflation is caused by more than an easy monetary policy or price decontrol.

Inflation in Eastern Europe is the fruit of a combination of circumstances: a one-sided emphasis on high accumulation, heavy investment, and fast growth, thus overextending the basic front and increasing huzi [5170 1311] projects; the pursuit of high consumption, accelerating the twin explosion of investment demand and consumption demand; the excessively rapid growth of Type A industries, rendering the economic structure

extremely irrational; the excessively rapid increase in wages and inadequate compensation of consumer goods; worsening price distortions; the increasingly heavy burden on the state imposed by price subsidies; mounting foreign debt, and so on. Inflation is caused less by deregulating prices and easing the money supply than by the above reasons, at least in East Europe. This also shows that it will take a long time, not 2 or 3 years, before East European nations permanently eliminate inflation.

Second, the aggressive pursuit of profitability is fundamental. A Western economist once commented that the key to price reform in China today lies with profitability. To put it simply, profitability means enterprise profitability. When enterprises are profitable, they can absorb most of the price increases resulting from price adjustment and decontrol, in contrast to the present when the state shoulders the lion's share of the price increases and is saddled with increasingly burdensome price subsidies, which seriously affects expanded reproduction and hits the consumer in his pocketbook, resulting in social "exhaustion." This analysis is also applicable to East Europe. In recent years, the media in Hungary, Poland, and Yugoslavia have pointed out that "raising enterprise profitability has become the key to price reform." For the moment, raising enterprise profitability involves political and economic structural reform as a whole, including enterprise management reform, which is a vital aspect as it transforms enterprises into independent commodity producers capable of market competition. The Polish press said, "Price increases unaccompanied by economic and social reforms will not turn the economy around. We should first reform the economic management system and the market structure."

Enterprise reform is a precondition for price reform, a point which is not yet appreciated in some East European nations. Hungary, for instance, emphasizes the regulatory effects of market mechanisms, but still keeps enterprises on a tight leash through a variety of planning targets. As a result, enterprises cannot compete in the market and become dependent on both market and state, particularly the latter in the days following price decontrol as state price subsidies proliferated. In Poland, too, price subsidies have been proliferating and mounting. Consequently, the signals of price movements have no effect on enterprises. They do not respond to price increases by adding equipment and increasing output in order to bring prices down. Clearly, an urgent task in economic reform in these countries today is to reform the enterprise management system, expand enterprise decision-making authority, and allow enterprises to compete in the market independently.

### Footnotes

1. "Prices in Current Economic Practice," Polish *NOWE DROGI*, Issue 3, 1988

2. *ZYCIE GOSPODARCZE [ECONOMIC LIFE]* January 1988



## AGRICULTURE

### **Agricultural Development Agreements Signed** *HK2102111189 Beijing CEI Database in English* 21 Feb 89

[Text] Beijing (CEI)—The central government has signed agreements with ten provinces and autonomous regions in 1989 for agricultural development.

The state has allocated 877 million yuan as land development fund for agricultural development.

The ten agreements include comprehensive agricultural development in the Sanjiang plain in Heilongjiang province, the cotton and beet production base in Xinjiang, the Huanghai and Huaihai plains in the five provinces of Hebei, Henan, Shandong, Anhui and Jiangsu.

The agreements also include the opening up of the Songliao plain in Jilin province, the Liaohe delta in Liaoning province and the Hangjiahu plain in Zhejiang province.

According to the agreements, the term of all the 10 projects is three years, during which the state will invest a total of 3.48 billion yuan.

Of the investment, 1.95 billion yuan will come from the land development fund, and the rest will be loaned from the agricultural bank.

The agreements provide that within three years, 2.587 million hectares of middle- and low-yielding farmland should be transformed, 1.63 million hectares of land reclaimed, 1.4 million hectares of land afforested and 280,000 million hectares of grassland transformed.

By 1990, it is estimated, grain output will increase by 8.05 billion kilograms annually and cotton 0.75 to 1.75 million kilograms.

Raw materials of edible oil will be up by 150 million kilograms, and meat output by 175 million kilograms.

The yield of beets is expected to increase by 1.6 billion kilograms.

Nine of the ten agreements clearly stipulate that beginning from the year when the loan is issued, the local governments should repay all their credits to the state at the end of 10 years, the agreements said. By 2000, the state will have recouped 802.5 million yuan of its investment.

### **Reduction in Ramie Exports Reported** *HK2102110989 Beijing CEI Database in English* 21 Feb 89

[Text] Beijing (CEI)—China will increase the sale of ramie products in the domestic market and reduce the export of such products to resolve the country's shortage of raw materials for the textile industry, such as wool, cotton and silk, according to the Ministry of Textile Industry.

As the biggest producer of ramie products in the world, China's ramie output volume accounts for 90 percent of the total output in the world.

A source from the ministry said that 95 percent of ramie products made in China have been exported in the past years. Now the Ministry of Textile Industry decided to hold the ramie week in some main cities including Beijing and Shanghai in May, to promote ramie products in the domestic market.

### **Developing Livestock Production** *40060240 Beijing NONGYE JINGJI WENTI* *[PROBLEMS OF AGRICULTURAL ECONOMY]* *in Chinese No 12, 23 Dec 88 pp 27-28*

[Article by Zeng Qingliang 2582 1987 0081 of the China Feed Industry Association: "Livestock Production Problems in Brief"]

[Text] From the present vantage point, it appears that the chief reason for the supply shortage of livestock products in China is because of the irrational price system. The irrational price parity between the selling prices of livestock products and livestock feed has affected the peasants' enthusiasm for developing the livestock industry. Yet, from the long-range view, a shortage of feed resources rather than prices is the fundamental factor restricting the development of China's livestock industry. The contradiction between feed supplies and livestock demands continually grows. Under such conditions, we should find a fundamental way of ultimately resolving this contradiction. We should specifically research what to produce with limited feed provisions, how much to produce, and how to produce it, instead of getting our research stuck on the point of whether to increase livestock production.

### **I. What To Produce—Readjusting the Livestock-Poultry Mix**

The livestock-poultry mix refers to the proportion of various kinds of livestock and poultry in the livestock industry. In this mix, the greater the return ratio for livestock and poultry, the greater the product output. In the process of converting feed into livestock products, there are huge differences in livestock and poultry conversion ratios due to genetic structure and differing physiological mechanisms. The feed return break-down



of relatively advanced domestic rearing units is as follows: Meat hogs, 4.5:1; meat chickens, 2.2:1; layer hens, 3.2:1; fish, 1.5:1; and milk cows, 0.4:1. Differing feed returns make it possible for us to choose a rational livestock-poultry mix. Considered from the perspective of feed conversion ratios, meat chickens are the highest: 2.2 kg of feed is convertible into 1 kg of weight. The feed return on layer hens, milk cows, and fish is also quite high. The hog is the greatest feed consuming domestic animal; on the average, 4.5 kg of feed are needed per kilogram of weight, even though the conversion utility ratios of energy and protein are quite low. Therefore, an important way to increase livestock output under conditions of limited feed supplies to develop energetically livestock and poultry of high feed returns: meat and layer hens, fish, and milk cows.

The main problem in developing the livestock industry in China is the seriously irrational livestock-poultry mix. For a long time now, the guiding principle for development of husbandry has always been an emphasis on production of live hogs. Production of other livestock and birds has been neglected, meaning poor economic returns for the industry. In 1986, China's gross livestock output value was 38.238 million tons, of which, output of pork, the highest feed consumer, was 17.96 million tons, or 47 percent. Poultry meat, of quite high feed return, was only 4.9 percent. The meat of herbivorous cows, lamb, and rabbit only accounted for 3.36 percent. Such a livestock product mix in itself lowers the feed utilization ratio, aggravates the contradiction of insufficient feed, restricts the development of other high return livestock and poultry, and ultimately limits increases in gross livestock output. Therefore, in order to improve China's livestock production ratio, first of all, we must make a change in strategy by altering the old livestock-poultry product mix based on hogs, appropriately lower the proportion of live hogs, and energetically develop poultry and fish. This is an important way to alleviate the supply shortage of feed and livestock. If we reduce the proportion of hogs in the livestock-poultry mix from the present 47 percent to 30 percent, there will be a reduction of 6.5 million tons of pork, convertible into 29.25 million tons of feed. If we used these feed resources to develop meat chickens, that would convert into 13.3 million tons of meat chickens. Without increasing the amount of feed consumed by turning 6.5 million tons of pork into 13.3 million tons of chicken meat, the gross livestock output grows by 6.8 million tons. This is economically rational and productively feasible. Moreover, considering nutritional value, chicken meat contains more protein than pork.

Thus, we must determine a rational livestock-poultry mix in order to more effectively use limited feed resources. Adjustment of the mix must be suited to local needs. We must consider both feed return and overall results. The aim of readjustment is to establish a "feed-economizing type" of livestock-poultry mix suited to China's national conditions. Its emphasis is to increase layer and meat chickens, milk cows, and fish; reduce the

number of hogs raised; increase rabbits, geese, lambs, and other herbivores; turn simple work cows into dual-use milk and work cows; and reduce the number of work horses and other big domestic animals.

## II. How Much To Produce—the Food Mix and Production Feasibility

China's present per capita food consumption is less than 400 kg. By the end of this century, we will still only be able to maintain this same level. Food consumption demands continually grow although there is limited potential for increasing food output. Under the circumstances of people's continually growing demands for livestock products and limited food that can be used as feed, we must not only decide what to produce but also the amount. With reference to a rational livestock-poultry mix, we must consider the consumption habits and demands of the people as well as the highest returns. Likewise, a rational food mix must not only satisfy the consumption demands of the people but also must be productively feasible. Determination of how much livestock to produce and how much can be produced must be made under the premise of feasible production and according to the people's consumption needs.

In 1987, China's inhabitants consumed per capita the following: meat, 18.6 kg; eggs, 5.6 kg; milk, 3.5 kg; and fish, 6.1 kg. Viewed from the three important nutritional factors of thermal units, protein, and fat, the problem of dressing warmly and eating their fill basically has been solved for the Chinese people, although the nutritional situation has yet to improve. The protein (especially animal protein) absorption rate is insufficient, and quality is rather bad. Starting from production feasibility, and the consumption habits, demands, and nutritional needs of the Chinese people, we should stress selection of grain rations and livestock in the food mix. According to forecasts by relevant departments, in the year 2,000, national per capita livestock consumption will rise to 643.4 kg, of which, meat will be 25 kg; eggs, 10 kg; milk, 15 kg; and fish, 14.4 kg. Animal foods will account for 30 percent of the food mix, basically able to meet the nutritional needs of the people. The people will be well-off in food consumption terms. Calculating the population in the year 2,000 at 1.25 billion, society's total demand for livestock products will be 80.5 billion kg, of which, meat will be 31.25 billion kg; eggs, 12.5 billion kg; milk, 18.75 billion kg; and fish, 18 billion kg. It is assumed that feed returns will have reached a rather advanced level by then. According to these calculations, the total demand for feed will be 172.5 billion kg.

According to the forecast of the Chinese Academy of Agricultural Sciences, in the year 2,000, the country's nationwide total food output may be 500 billion kg, of which, approximately 30 percent, or 150 billion kg, could be used for feed. Approximately 50 billion kg of chaff, bran, various cakes, and rice dregs could be used for concentrated feed. By adding the two, the total

output of concentrated feed could be 200 billion kg, in principle enough to meet the production development needs of the livestock industry.

In theory, production makes consumption possible. But there is a question regarding production methods and ratios to turn this possibility into reality. It must be pointed out that it would be difficult to have 172.55 billion kg of concentrated feed produce 80.5 billion kg of livestock products using the chief traditional methods of scattered and simple feeds. The preconditions for doing so are that the main form of livestock production is the intensive method and that the majority of livestock and poultry are raised on compound feed.

### III. How To Produce—Intensive Raising and the Feed Industry

Practice proves that to turn limited feed into more livestock products, we must adopt modern intensive husbandry methods. We must energetically develop and disseminate the modern feed industry and raise commodity feed conversion rates.

China's livestock products are in short supply. A main cause is that livestock produced by the traditional method of scattering feed cannot satisfy the daily increasing demands of the people. We must give priority to developing for China a modern intensive livestock industry so that the industry will leave its slump and develop vigorously. In the suburbs of large cities, we must build a group of modern, medium and large-scale livestock farms. In extensive rural areas, we must energetically develop various types of livestock specialized households. Intensive husbandry has the great advantage of economies of scale as well as rather high labor production and commodity ratios. Furthermore, it is helpful in overcoming instability due to overly small-scale husbandry and overly poor returns in the industry. It is also helpful towards ultimately resolving the livestock supply and demand contradiction.

Intensive husbandry is an objective demand of rural commodity economy development. It is an inevitable result of the more and more specialized division of labor in rural development. Intensive husbandry requires a perfected social service system. It demands coordinated development and that each link become part of the whole, from propagation of superior breeds, feed processing, disease and epidemic prevention, and livestock product processing, to marketing. Establishment of a modernized feed system is a main pillar of the intensive livestock industry.

On the one hand, development of the feed industry can guarantee the smooth progress of intensive husbandry. On the other hand, it has great socioeconomic returns. Not only does it allow for the efficient use of limited food resources, but it also can fully use other, non-food feed resources, such as various cakes, rice dregs, distiller's

grains, livestock processing waste, etc., thereby alleviating the contradiction of short feed resources. Practice proves that use of compound feed to raise livestock and poultry has a relatively high feed return. There is a savings of more than 50 kg of feed by raising a 100 kg hog on compound feed as compared to simple feed. Moreover, the hog can be slaughtered three months earlier. At present, China's gross compound feed output is more than 20 million tons, or about 20 percent of all feed consumption. The dissemination rate of compound feed is comparatively low, a main reason for low productivity in the livestock industry. If compound feed were used to raise the entire country's 300 million head of hogs, at least 15 billion kg of feed could be saved per year. There would also be at least a 30 percent annual increase in the number of live slaughters due to improvements in this area. On the one hand, less feed is consumed, and on the other, pork output rises. Furthermore, the feed saved could be used to develop other livestock and poultry. In the use of compound feed to raise meat chickens, 2 kg of feed is convertible to 1 kg of chicken meat. For layers, 3 kg of feed can produce 1 kg of eggs. Since one bird can lay 250 eggs per year, there is an increase of more than 100 eggs over the number of eggs produced by old women raising hens. There is great potential for energetically developing the livestock industry, disseminating the use of compound feed, and using existing feed resources to increase livestock output since at present extensive rural areas in China still use traditional simple feeds.

Since intensive husbandry and the feed industry coexist and promote each other, the two must be synchronized. Under present circumstances in China, the fundamental way for ultimately resolving the country's livestock product supply problem as well as promoting the close linkage and coordinated development of the feed and livestock industries, is to develop vigorously a comprehensively managed, united enterprise that is "one coordinated chain" of links from feed processing, and livestock and poultry raising, to product processing and marketing.

### Jiangxi Peasant Income

40060351d Nanchang JIANGXI RIBAO in Chinese  
30 Jan 89 p 1

[Summary] In 1988 peasant per capita net income in Jiangxi Province was 488.16 yuan, an increase of 58.87 yuan over 1987.

### Jilin's Soybean Harvest 'Gratifying'

SK0303072289 Changchun JILIN RIBAO  
in Chinese 9 Feb 89 p 1

[Text] A gratifying situation in soybean production emerged in our province last year. When compared with 1987, in 1988 the peasants increased their income by 88 million yuan from marketing soybeans, thanks to the reasonable increase in the price of soybeans.

Soybean-growing areas were expanded, and the crop-growing structure tended to be reasonable thanks to increased purchase prices of soybeans. Last year, the soybean output volume reached 1.197 million tons, breaking a 30-year record.

### **Ningxia To Use Foreign Funds for Grain Production**

*HK2202093589 Beijing CEI Database in English  
22 Feb 89*

[Text] Yinchuan (CEI)—Ningxia Hui Autonomous Region will use foreign funds to boost grain production.

The region now has a population of more than 4 million people. In 1988 it turned out 1.65 billion kilograms of grain. However in the southern part, grain output is not stable due to frequent drought. In the plain where the irrigating system is good, large areas of waste land are expected to be cultivated. The regional government therefore has decided to draw foreign funds to enforce the region's grain production.

Two large-scale irrigating systems will be built so as to improve the irrigation conditions, and stable and high-yield fields will be cultivated in southern mountain areas. One is the diversion works involving 190 million yuan. When completed, it can add 30 million kilograms more of grain. The autonomous region will ask the United Nations to offer 13 million U.S. dollars to aid its soil improvement.

The other is to use UN aid in the Liangyuanxiang diversion works, reforming 36,000 hectares of fields and cultivating 12,000 hectares. About 13 million U.S. dollars is needed. When completed, the region can gain 35.55 million kilograms of additional grain every year.

About 660,000 hectares of waste land and 100,000 hectares of low-yield fields along the yellow river will be cultivated and improved, which can provide 800 million kilograms of additional grain.

So far, Ningxia Autonomous Region has used 13 million U.S. dollars of loan from the world bank in setting up irrigating system. When the construction is completed, the irrigated area will be expanded to 26,800 hectares. This may bring an increase of 65 million kilograms of grain every year. Additionally, the region will ask for technological aid from the European community.

### **Shaanxi Cotton Problems**

*40060242b Beijing JINRONG SHIBAO  
in Chinese 12 Jan 89 p 1*

[Article by correspondent Lin Shou 2651 1108: "The Cotton Situation—Notes From a Visit to the Shaanxi Plains"]

[Text] With the beginning of December 1988, due to insufficient supplies of raw cotton, the offices of the Provincial Textile Industry Corporation were flooded

with emergency calls from various cotton mills. An engineer of the planning and business department of the said corporation in charge of cotton allocations said that the inability to supply cotton had seriously affected the export plan, which had provided for the export of over 500 tons of cotton yarn.

Shaanxi is one of the chief bases of China's textile industry. There are now 20 large and medium textile enterprises throughout the province, with a capacity of 1.26 million spindles. They require 3.2 million dan of raw cotton per year. In the early years of the 1980's, Shaanxi's production of cotton provided somewhat over half of the province's requirements for yarn production, but by 1987, the rate at which the province could supply its own requirements declined to 20 percent. The balance of 80 percent had to be brought in from other provinces, but this became difficult when cotton became short throughout the entire country.

Last year, production of cotton in Shaanxi declined due to a spell of wet weather, and this has further aggravated the problem that is now being faced.

From September to the beginning of December of last year, Shaanxi's textile mills could not supplement their supplies with fresh cotton. In the 3 months of September, October, and November, they had used up 700,000 dan of their cotton stocks, and what remained in stock could last them for their production only to the end of the year. On the other hand, of the 800,000 dan of cotton, which the state had planned to allocate, only 520,000 had been forthcoming by the end of November, and full delivery of the total amount of raw cotton will still take until February of this year.

In addition to large and medium textile mills, Shaanxi is presently building, or preparing to build or expand, almost 100 small cotton mills, which would require 1.17 million dan of cotton per year, an amount which is more than the total production of cotton throughout the province.

Shortages are stringent not only for the textile industry but also for the requirements of the war industry, the light industry, and for the cotton-padded clothing of the population. During the first 10 months of last year, sales of padding cotton and stocks of padding cotton in the consumption areas was down 30 percent and 53 percent, respectively, compared to the preceding year. Some citizens resented it to stand in line from early morning to buy "black market cotton" at elevated prices.

### **Cotton Growing Proves Unprofitable**

The Shaanxi plain is one of China's important cotton growing areas, with an area of 2 million mu suitable for cotton growing, of which 1.5 million mu are preeminently suitable for cotton growing. However, for the last 3 years, the area planted to cotton in this region fluctuated between only 800,000 and 1,100,000 mu. According

to estimates of the provincial Cotton, Tobacco, and Hemp Corporation, the total area planted to cotton this year could decline to between 500,000 and 600,000 mu, and quite a number of counties will abandon cotton production.

Why are peasants reluctant to grow cotton? The main reason is that the cotton procurement price is too low. Following decontrol of many prices for agricultural byproducts and after applying the "double-track" system for grain purchases and sales, no corresponding adjustment has been made in the cotton procurement price. Statistical data from Weinan, Xian, and other places indicate that the ratio between cotton and grain prices has by now declined from the 1 to 8 and 1 to 9 rate to a 1 to 5.7 rate. The differential is even greater in comparison with other commercial crops. It has been calculated that an average mu of land planted to pepper is 5 times, and if planted to tobacco 2.27 times more profitable than if planted to cotton. Dali County is among the best high-grade cotton growing bases of the entire country, and in 1987 held a record for per unit area yield with an average of 85 kilos per mu, but the net income from every mu was merely 169.7 yuan, which was only one-third of the net income from a mu of apple crop, and far below the level of income from watermelon and vegetable cultivation.

In recent years, prices for agricultural plastic film, chemical fertilizer, and pesticides have risen sharply, which in turn raised production costs for cotton. It was calculated that last year 50 kilos of lint from one mu would cover production costs for that mu of cotton, but having suffered natural calamities, it was figured that one mu of cotton now produced only 37.5 to 40 kilos, so that the cotton farmer was evidently operating at a loss. In addition, the obligation to provide grain for state procurement in the Shaanxi cotton region has recently been increasing year by year, which has also acted as a further inducement for the cotton farmer to change to grain production instead.

#### **Much Leakage Into the "Black Market"**

The current cotton pricing policy does not take the economic interests of the cotton farmer into consideration. The cotton procurement price is low, and in addition a shortage of cash this year made procurement very difficult. Among the 21 mainly cotton growing counties of Shaanxi, there were 7 counties where large quantities of cotton had not yet been bought up by 5 November.

Overtly or covertly, cotton is flowing into the market.

The market towns of the Shaanxi plain have become free collecting and distributing centers. In Fuping County alone, a maximum of up to 5,000 kilos of cotton reached the old temple market every market day. Some cotton farmers process lint into padding cotton and transport it to market towns or to industrial and mining areas to sell

at high prices. Cotton dealers raise prices and buy up cotton in the producing districts. In Jingyang County, it is figured, that over 6,000 dan have this year been drained from the district. Some out-of-plan small cotton mills buy up cotton directly in the producing areas; they either offer high prices or exchange cotton for cotton yarn of their own production.

In spite of repeated orders from the Shaanxi provincial government, strictly forbidding free trading in cotton, threatening severe punishment for trading without license, raising prices, and for speculative buying up and selling of cotton, the "black market" shows no decline but rather increases in certain areas. What is checked during daytime will be sold in the dark of the evening, and where roads are checked, shipment is made by river. In areas where controls are strict, cotton is transported to areas which nobody is controlling. All these activities have become common occurrences. When one county government enlisted over 200 men for a one-time strict raid on its cotton market, they recovered over 1,000 kilos of ginned cotton. Unexpectedly, this market immediately removed itself to the neighboring county, and there cotton was still coming on the market at the rate of over 1,000 kilos per day.

#### **Policy Requires Adjustment**

A timely adjustment of the cotton production policy and the procurement and sales policy has become a pressing matter of the day. Relevant departments in Shaanxi Province believe that what is needed is, first, an adjustment of the pricing policy and an increase in the price for cotton. One should first institute the "dual track" system as a transitional method to raise the income of cotton farmers, and, furthermore, apply the lowest possible protective prices to stabilize prices in the domestic market for cotton textile products.

Second, the policy of selling grain as rewards to cotton farmers should be restored, in order to adequately solve the food problem of cotton farmers.

Third, a well coordinated method should be adopted for the monopolistic trade in such means of production as chemical fertilizer, agricultural plastic film, and pesticides, which may be supplied in advance in connection with contractual commitments of cotton purchases, thus ensuring the requirements of the cotton farmers. At the same time strict punishment should be meted out for such illegal acts as cheating the farmers by adulterating pesticides and chemical fertilizer.

Comrades of the Provincial Textile Industry Corporation suggested that the planning commission, the enterprise bureaus of towns and townships, the Textile Industry Corporation, and the supply and marketing cooperatives take unified action in a thorough reorganization of the small cotton mills in the various localities, and resolutely close, suspend, merge, or retool those

mills that do not meet economic and technological standards, and that show unsatisfactory returns, to avoid wasting financial and material resources.

**Expansion of Cotton-Growing Area in Shandong**  
*OW2402023789 Beijing XINHUA in English*  
0905 GMT 23 Feb 89

[Text] Shandong Province in east China is planning to open up 46,700 hectares of waste land for growing cotton, and local governments in the province are taking active measures to implement the plan.

Shandong accounted for 3 percent of all the cotton grown in China last year, and is one of the country's major cotton producers, leading the country in total cotton output for nine consecutive years.

Since 1980 the province has opened up about 310,000 hectares of waste land to cotton crops—which accounts for 30 percent of its total cotton planting area.

According to the provincial agricultural department, there are still 330,000 hectares of waste land suitable for growing cotton waiting to be developed in the province.

Shandong also plans to build several new cotton mills in co-operation with textile plants from other provinces.

**Sichuan Water Diversion Project**  
*OW2802012089 Beijing XINHUA in English*  
1558 GMT 27 Feb 89

[Text] Construction of a large water diversion project started at Jiangyou County, in southwest China's Sichuan Province, last week.

The project includes a reservoir with a storage capacity of 500 million cu m, three canals and two power plants with a combined generating capacity of 167,600 kw.

The construction will be divided into three phases and cost 1.3 billion yuan.